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BREAKING DOWN BARRIERS

176TH ANNUAL REPORT 1993

Bank of Montreal

Bank of Montreal

NOTICE OF

ANNUAL MEETING

OF SHAREHOLDERS

TO THE SHAREHOLDERS

Bank of Montreal

The Annual Meeting of shareholders of Bank of Montreal (the "Bank") will be held on Monday, January 17, 1994 in Le Grand Salon, Convention Floor, The Queen Elizabeth Hotel, Montreal, Canada at 11:00 a.m. (Montreal time) for the following purposes:

1. To receive the financial statements of the Bank for the year ended October 31, 1993 and the report of the auditors thereon;
2. To appoint auditors;
3. To elect directors;
4. To consider and, if thought fit, to confirm by Ordinary Resolution amendments to General By-laws Two and Six;
5. To consider and, if thought fit, to confirm by Special Resolution the amendment to Article 4.01 of General By-law Four respecting the minimum and maximum number of directors of the Bank; and
6. To transact such other business as may properly be brought before the meeting.

If you cannot attend the meeting in person, you should complete and return the enclosed form of proxy in the provided postage pre-paid envelope. In order for your vote to be recorded the proxy must be in the hands of the Bank's transfer agent, The R-M Trust Company, at its Montreal office, not later than 5:00 p.m. on the last business day prior to the date of or any adjournment of the meeting.

By order of the Board

Dereck M. Jones
Senior Vice-President, Secretary
and General Counsel

Montreal, Canada
December 13, 1993

SOLICITATION OF PROXIES

This Circular is furnished in connection with the solicitation of proxies by the management of Bank of Montreal (the "Bank") to be used at the Annual Meeting of Shareholders of the Bank to be held at the time and place and for the purposes set forth in the Notice of Meeting accompanying this Proxy Circular.

The accompanying proxies are being solicited by the management of your Bank and the cost of solicitation will be borne by the Bank. The solicitation will be primarily by mail, but may also be effected personally by regular employees of the Bank.

If you cannot attend the Meeting in person, complete and return the enclosed form of proxy to the principal office of our transfer agent, The R-M Trust Company, Montreal, in the envelope provided, to be in its hands not later than 5:00 p.m. on the last business day prior to the date of the Meeting, or any adjournment thereof, as this will enable your vote to be recorded.

APPOINTMENT OF PROXY

The persons named in the accompanying form of proxy are directors of the Bank. Subject to the restrictions mentioned under "Voting Shares" below, **a shareholder desiring to appoint some other person, who need not be a shareholder, to represent him at the Meeting may do so** by inserting such other person's name in the blank space provided in the form of proxy.

REVOCATION OF PROXIES

A shareholder who has given a proxy may revoke it by an instrument in writing executed by the shareholder or by his attorney authorized in writing or, if the shareholder is a corporation, under its corporate seal or by an officer or attorney thereof duly authorized, and deposited either at the head office of the Bank at any time up to and including the last business day preceding the day of the Meeting, or any adjournment thereof, at which the proxy is to be used, or with the chairman of such Meeting on the day of the Meeting, or any adjournment thereof.

EXERCISE OF DISCRETION BY PROXIES

The persons named in the enclosed form of proxy will vote or withhold from voting the shares in respect of which they are appointed in accordance with the direction of the shareholders appointing them. **In the absence of such direction, such shares will be voted in favour of all the matters identified in the enclosed Notice of Meeting.** The enclosed form of proxy confers discretionary authority upon the persons named therein with respect to amendments or variations to matters identified in the Notice of Meeting and to other matters which may properly come before the Meeting. At the time of printing of this Circular, the management of the Bank knows of no such amendment, variation or other matter expected to come before the Meeting other than the matters referred to in the Notice of Meeting. If any matters which are not now known should properly come before the Meeting, the persons named in the accompanying form of proxy will vote on such matters in accordance with their best judgment.

VOTING SHARES

As at November 19, 1993 there were outstanding 249,093,914 Common Shares of the Bank. Subject to the Bank Act, each registered shareholder has one vote for each Common Share held at the close of business on November 29, 1993, except to the extent that the shareholder has transferred the ownership of any of his or her shares after November 29, 1993, and the transferee of those shares produces properly endorsed share certificates or otherwise establishes that he or she owns the shares and demands not later than 10 days before the Meeting that his or her name be included in the list of shareholders before the Meeting, in which case the transferee, subject to the Bank Act, shall be entitled to vote his or her shares at the Meeting.

The Bank Act contains provisions which, under certain circumstances, restrict the exercise in person or by proxy of voting rights attached to the shares of the Bank. These provisions may be summarized as follows:

1. Shares held by non-residents of Canada – A resident of Canada is not permitted to vote in person or by proxy any shares of the Bank held by the resident in the right of or for the use or benefit of a non-resident of Canada, other than a non-resident who is a United States resident.

2. Non-residents holding more than 10% of the outstanding shares of the Bank – Where a non-resident other than a non-resident who is a United States resident and/or any entities controlled by that non-resident beneficially own more than 10% of the outstanding shares of the Bank, no person is permitted to vote any of those shares, whether in person or by proxy.

3. Shares held by governments and their agencies – No person is permitted to vote in person or by proxy any shares of the Bank beneficially owned by:

   a) the government of Canada or of a province or any agency thereof; or

   b) the government of a foreign country or any political subdivision thereof or any agency of the government of a foreign country or any political subdivision thereof.

When executing the enclosed form of proxy you should conform to the requirements of the law and if only a certain number of the shares covered by such proxy can properly be voted, a notation on the proxy stating such number should be made.

Except as provided in the Bank Act, every question brought before the Meeting of Shareholders shall be determined by a majority of votes cast on the question. In case of an equality of votes, the chairman of the Meeting shall be entitled to a second or casting vote.

VOTING CONFIDENTIALITY

In order to preserve the confidentiality of individual shareholder votes, proxies are counted and tabulated by the Transfer Agent of the Bank, The R-M Trust Company. Proxies are only referred to the Bank in cases where a shareholder clearly intends to communicate an individual position to management or when it is necessary to do so to meet the requirements of applicable law.

APPOINTMENT OF AUDITORS

Management proposes that the firm of Coopers & Lybrand and the firm of Peat Marwick Thorne be appointed as auditors of the Bank for the 1994 fiscal year. In accordance with the Bank Act, the directors at a meeting held on October 26, 1993 fixed the remuneration of the auditors for the 1994 fiscal year at $1,120,000.

During the previous five-year period Coopers & Lybrand were Bank auditors in 1989, 1990 and 1991; Deloitte & Touche (formerly Touche Ross & Co.) in 1989 and 1992, and Peat Marwick Thorne in 1990, 1991 and 1992, in accordance with the rotation required by the previous Bank Act. The firm of Coopers & Lybrand and the firm of Peat Marwick Thorne were Bank auditors in 1993.

ELECTION OF DIRECTORS

The following are the nominees proposed by management for election as directors of the Bank. Directors will hold office until the next succeeding annual meeting of shareholders of the Bank or until their successors are elected or appointed.

NAME	PRINCIPAL OCCUPATION AND BUSINESS	DIRECTOR SINCE	NUMBER OF COMMON SHARES OWNED OR OVER WHICH CONTROL OR DIRECTION IS EXERCISED AS AT NOVEMBER 19, 1993
a) **Matthew W. Barrett**	Chairman and Chief Executive Officer, Bank of Montreal (Director and Chairman, Bankmont Financial Corp.; Director, Harris Bankcorp, Inc., Harris Trust and Savings Bank, The Nesbitt Thomson Corporation Limited)	Nov. 1, 1987	27,941
a) **F. Anthony Comper**	President and Chief Operating Officer, Bank of Montreal (Director, The Nesbitt Thomson Corporation Limited, Harris Bankcorp, Inc., Harris Trust and Savings Bank)	Jan. 15, 1990	17,116
a) **Ralph M. Barford**	President, Valleydene Corporation Limited (Investment company)	Jan. 20, 1986	50,000
a) **David R. Beatty, O.B.E.**	President, Weston Foods Ltd. (Food processing)	Jan. 20, 1992	2,000
b) **Peter J. G. Bentley, O.C., LL.D.**	Chairman and Chief Executive Officer, Canfor Corporation (Integrated forest products company)	Jan. 16, 1978	17,400
a) b) **Pierre Côté, C.M.**	Chairman of the Board, Celanese Canada Inc. (Chemicals and Textiles)	July 18, 1972	35,840
a) **C. William Daniel, O.C., LL.D.**	Corporate Director/Consultant (Director, Bankmont Financial Corp.)	Oct. 24, 1978	5,258
Graham R. Dawson	President, G. R. Dawson Holdings Limited (Holding company)	Dec. 13, 1971	104,244
a) **Louis A. Desrochers, Q.C.**	Senior Partner, McCuaig Desrochers (Barristers & Solicitors)	Dec. 10, 1973	8,760
a) **John F. Fraser, O.C., LL.D.**	Chairman, Federal Industries Ltd. (Diversified management company)	Jan. 14, 1985	1,072
Wilbur H. Gantz	President and Chief Executive Officer, PathoGenesis Corporation (Pharmaceutical research and development) Prior to June 1992, President, Baxter International Inc. (Healthcare) (Director, Harris Bankcorp, Inc., Harris Trust and Savings Bank)	—	Nil
James J. Glasser	Chairman, President and Chief Executive Officer, GATX Corporation (Distribution assets and related services) (Director, Bankmont Financial Corp., Harris Bankcorp, Inc., Harris Trust and Savings Bank)	—	Nil
John H. Hale	Company Director	Jan. 14, 1985	8,655
Donald S. Harvie, O.C.	Chairman, Devonian Foundation (Charitable activities)	Dec. 5, 1966	12,566
Robert E. Kadlec	President and Chief Executive Officer, BC Gas Inc. (Energy company)	Jan. 14, 1991	2,000
a) **Betty Kennedy, O.C., LL.D.**	Broadcast Journalist	Nov. 18, 1975	12,508
Geraldine A. Kenney-Wallace, LL.D.	President and Vice-Chancellor, McMaster University; Scientist (Educational and research institution)	Jan. 15, 1990	400
Stanley Kwok	Chairman, Amara International Investments Corp. (Real estate development)	Jan. 18, 1993	1,000
a) **J. Blair MacAulay**	Partner, Fraser & Beatty (Barristers & Solicitors) (Director, The Trust Company of Bank of Montreal)	Dec. 13, 1971	10,000
Ronald N. Mannix	Chairman, and Chief Executive Officer Loram Corporation (Resource company)	Mar. 28, 1978	30,710
b) **Robert H. McKercher, Q.C.**	Senior Partner, McKercher McKercher Laing & Whitmore (Barristers & Solicitors)	July 1, 1988	2,770
Eric H. Molson	Chairman of the Board, The Molson Companies Limited (Diversified Canadian company)	Jan. 19, 1987	132,770
b) **Jean C. Monty**	President and Chief Executive Officer, Northern Telecom Limited (Telecommunications equipment)	Jan. 14, 1991	800
William D. Mulholland, LL.D.	Farmer; Former Chairman of the Board, Bank of Montreal	Feb. 3, 1970	20,000
Jerry E. A. Nickerson	Chairman, H. B. Nickerson & Sons Ltd. (Management and holding company)	Jan. 19, 1981	2,942
b) **Jeremy H. Reitman**	President, Reitmans (Canada) Limited (Retailing)	Jan. 19, 1987	2,400
Guylaine Saucier, C.M., F.C.A.	Corporate Director	May 1, 1992	336
b) **William W. Stinson**	Chairman and Chief Executive Officer, Canadian Pacific Limited (Management holding company)	Jan. 16, 1989	4,611
Mary Alice Stuart, C.M., O.ONT., LL.D.	Chairman and Chief Executive Officer, CJRT-FM INC. (Non-profit radio broadcast service)	Jan. 20, 1986	1,514
James C. Thackray	Director, Bell Canada (Telecommunications)	Dec. 11, 1972	5,000
a) b) **Lorne C. Webster**	Chairman and Chief Executive Officer, Prenor Group Ltd. (Financial services) (Director, Bankmont Financial Corp.)	Dec. 8, 1969	26,248

a) Member of Executive Committee

b) Member of Audit Committee and Conduct Review Committee

AMENDMENTS TO GENERAL BY-LAWS

General By-laws Two and Six of the Bank were amended by resolution adopted by the Board of Directors at a meeting held on October 26, 1993, to provide for the category of "managing director" as an officer of the Bank and to authorize managing directors, as officers of the Bank, to sign Bank documents under seal. As the amendments to General By-laws Two and Six are required to be confirmed by ordinary resolution passed by a majority of the votes cast on the matter by the shareholders, it is proposed to present the following resolution to the meeting:

"THAT the amendments to General By-law Two and General By-law Six of the Bank, as adopted by the Board of Directors on October 26, 1993, be and they are hereby confirmed."

Article 4.01 of General By-law Four of the Bank was amended by resolution adopted by the Board of Directors at a meeting held on October 26, 1993, reducing the minimum number of directors from 28 to 7, which is the minimum number allowed under the Bank Act, and reducing the maximum number of directors from 54 to 40. This amendment is consistent with management's stated objective of reducing the size of the Board of Directors over time to between 18 and 22 directors. As the amendment to Article 4.01 of General By-law Four is required to be confirmed by special resolution passed by an affirmative vote of not less than two-thirds of the votes cast on the matter by the shareholders ("Special Resolution") it is proposed to present the following Special Resolution to the meeting:

"THAT Article 4.01 of General By-law Four relating to the minimum and maximum number of directors, as amended by the Board of Directors on October 26, 1993, be and it is hereby confirmed."

SUMMARY OF BOARD AND COMMITTEE MEETINGS HELD

A statement of the record of attendance of directors at each meeting of directors as required under the Bank Act is attached as Schedule A.

The Bank continues to hold Board and Board Committee meetings at locations throughout Canada. During the twelve-month period covered by Schedule A, in addition to meetings in Toronto, the Board of Directors met in Quebec City and Calgary. The Regional Committees of the Board met in Moncton, Sherbrooke, Kingston, London, Saskatoon, Calgary, Nanaimo and Vancouver in addition to meetings in Toronto and Montreal. The European Committee held its meetings in London, England.

DIRECTORS' AND OFFICERS' COMPENSATION FROM THE BANK AND ITS SUBSIDIARIES

The following information is provided pursuant to the requirements of the Bank Act, securities legislation of certain provinces of Canada and the expanded requirements of the new Regulations under the Securities Act (Ontario).

STATEMENT OF DIRECTORS' AND OFFICERS' COMPENSATION

	DIRECTORS' FEES	SALARIES	BONUSES (1)	NON-ACCOUNTABLE EXPENSES	OTHERS (2)	TOTAL
Remuneration of Directors						
a) Number of directors: (28)						
b) Corporation incurring the expense:						
Bank of Montreal	$930,500					$930,500
Bank of Montreal Realty Inc.	4,000					4,000
Bankmont Financial Corp.	25,109					25,109
The Trust Company of Bank of Montreal	21,100					21,100
Remuneration of Officers						
a) Number of officers: (233)						
b) Corporation incurring the expense:						
Bank of Montreal		$35,759,552	$10,209,329		$6,201,857	52,170,738
Totals	$980,709	$35,759,552	$10,209,329	Nil	$6,201,857	$53,151,447

Notes 1: The amount shown above was paid to officers of the Bank in the last completed financial year in respect of bonuses relating to the immediately preceding financial year.

2: A number of senior and other officers of the Bank are participants in incentive plans. The estimated aggregate of all amounts accrued to date representing contributions by the Bank and payable in future years conditionally or otherwise to officers of the Bank who received, in the Bank's last completed financial year, remuneration in excess of $75,000 was $6,201,857. This amount represents the aggregate of accruals over a period of several years. Payments to participating executives are made, in general, upon retirement subject to applicable conditions.

Directors' Compensation

Directors of the Bank receive remuneration for their services as follows: a retainer of $15,000 per annum payable quarterly and a fee of $800 per Board Meeting attended. Directors also receive an attendance fee of $800 for each meeting of a Committee they attend and $800 per diem for official regional activities. Committee Chairmen receive an additional $275 per meeting. Members of the Executive Committee receive an additional annual retainer of $4,000 payable quarterly. Directors who are officers of the Bank or of a banking subsidiary do not receive fees. Directors are also reimbursed for travel and other out-of-pocket expenses incurred in attending Board or Committee meetings, and for any reasonable expenses incurred while on Bank business.

Directors of Bank of Montreal Realty Inc. (dissolved April 1993) received remuneration for their services as follows: a retainer of $4,000 per annum payable quarterly and a fee of $500 per meeting attended. The Chairman of a meeting received an additional $500 per meeting. Directors who were officers of the Bank or of a Bank subsidiary did not receive fees. Directors were also reimbursed for travel and other out-of-pocket expenses incurred in attending meetings and for any reasonable expenses incurred while on subsidiary business.

Directors of Bankmont Financial Corp. receive remuneration for their services as follows: a retainer of U.S.$6,000 per annum payable quarterly and a fee of U.S.$1,000 per meeting attended. Directors who are officers of the Bank or of a Bank subsidiary do not receive fees. Directors are also reimbursed for travel and other out-of-pocket expenses incurred in attending meetings and for any reasonable expenses incurred while on subsidiary business.

Directors of The Trust Company of Bank of Montreal receive remuneration for their services as follows: a retainer of $11,000 per annum payable quarterly and a fee of $950 for each day on which they attend in person a meeting, or meetings if more than one on any one day, of the Board. An additional $950 is paid for each meeting to a Director who acts as Chairman of a meeting of the Board of Directors. Directors receive $600 for each day on which they attend a committee meeting or meetings if more than one on any one day. An additional $200 is paid for each meeting to a Director who acts as Chairman of a committee. Directors who are officers of the Bank or of a Bank subsidiary do not receive fees. Directors are also reimbursed for travel and out-of-pocket expenses incurred in attending meetings and for reasonable expenses incurred while on subsidiary business.

Executive Compensation

During the last completed financial year, the Bank had 20 Executive Officers ("Executives") who collectively received $9,134,343 of cash compensation during such year from the Bank for services rendered during that year, which includes $3,323,060 paid pursuant to the performance related compensation plan. For this purpose, "Executives" means the Chairman of the Board and Chief Executive Officer, the President and Chief Operating Officer and the Vice-Chairmen of the Bank, and senior officers in charge of principal business units of the Bank, and includes all officers of the Bank performing a policy-making function in respect of the Bank.

Executives are provided with a leased automobile, club memberships for business development purposes and are given the option to participate in a Shareownership Plan. The aggregate value of these items for the last completed financial year does not exceed the lesser of $25,000 times the number of Executives or 10% of the aggregate cash compensation.

The following table sets forth, for the periods indicated, the compensation of the Chief Executive Officer and the five most highly compensated executive officers of the Bank, other than the Chief Executive Officer, for the year ended October 31, 1993. The Chief Executive Officer and such five executive officers are referred to collectively as the "Named Executives".

		ANNUAL COMPENSATION			LONG-TERM COMPENSATION			
					AWARDS		PAYOUTS	
NAME AND PRINCIPAL POSITION	YEAR	SALARY ($)	BONUS ($)(1)	OTHER ANNUAL COMPENSATION ($)	# SECURITIES UNDER SARs (2) GRANTED	RESTRICTED SHARES OR RESTRICTED SHARE UNITS ($)	LTIP (3) PAYOUTS ($)	ALL OTHER COMPENSATION ($)(4)
M.W. Barrett	1993	850,000	900,000	Nil	68,000	Nil	Nil	13,696
Chairman and	1992	800,000	750,000		86,000	Nil	Nil	
Chief Executive Officer	1991	745,000	550,000		102,000	Nil	Nil	
F.A. Comper	1993	620,000	500,000	Nil	38,000	Nil	Nil	4,986
President and Chief	1992	590,000	415,000		47,000	Nil	Nil	
Operating Officer	1991	525,000	300,000		51,000	Nil	Nil	
J.S. Chisholm	1993	400,000	164,420	Nil	17,000	Nil	Nil	5,332
Vice-Chairman	1992	400,000	211,323		21,000	Nil	Nil	
	1991	400,000	87,331		30,000	Nil	Nil	
K.O. Dorricott	1993	316,200	175,554	Nil	13,000	Nil	Nil	2,451
Vice-Chairman	1992	299,583	171,018		15,000	Nil	Nil	
(Appointed Apr. 1, 1992)	1991	275,000	138,096		20,000	Nil	Nil	
R.G. Rogers	1993	317,000	189,528	Nil	13,000	Nil	Nil	1,300
Senior Executive	1992	317,000	206,225		17,000	Nil	Nil	
Vice-President	1991	302,250	199,527		21,000	Nil	Nil	
(Appointed Nov. 1, 1990)								
A.G. McNally (5)	1993	400,373	231,094	Nil	15,000	Nil	Nil	9,096
Vice-Chairman	1992	355,000	298,510		19,000	Nil	Nil	
	1991	338,500	256,472		24,000	Nil	Nil	

Notes 1: Bonus amounts are paid in cash in the year following the fiscal year in which they were earned.

2: Stock appreciation rights. The number of SARs have been adjusted to reflect the stock dividend on the common shares of the Bank paid on March 20, 1993.

3: Long-term incentive plan.

4: For the Named Executives, the amount of deferred bonus totals $648,544 and the amount shown represents the amount of interest accrued for the year ended October 31, 1993 under the executive incentive bonus plan.

5: Mr. McNally resigned the position of Vice-Chairman of the Bank effective August 31, 1993 and on September 1, 1993 assumed the post of Chief Executive Officer, Harris Bankcorp, Inc., a subsidiary of the Bank.

Effective November 1, 1987 certain Executives, including certain of the Named Executives, are eligible to participate in a performance related compensation plan. The plan provides for annual cash payments to participants based upon the achievement of current fiscal year individual objectives and corporate and group objectives predetermined by the Board of Directors. Participation in each year is at the discretion of the Board of Directors. There is no provision for deferral of payment. Amounts payable under this plan are determined as soon as practicable after the end of the fiscal year. Amounts paid or distributed in the most recently completed fiscal year are included in reported cash compensation.

Prior to November 1, 1987 Executives, including the Named Executives, were covered by an executive incentive bonus plan pursuant to which a portion of the annual bonus payable to such Executives could be deferred depending upon both the amount of the bonus and the age of the Executive at the time the bonus was awarded. The deferred bonus must be paid upon normal retirement, earlier retirement of an Executive with the concurrence of the Bank or in the event of termination as a result of an employee's disability or death. In the event of termination in other circumstances, payment of the deferred bonus

is in the discretion of the Bank. Participants in the plan may elect, prior to retirement, various methods of receiving the deferred bonus upon retirement, including payment by way of a life annuity. No amounts were paid or distributed in the most recently completed fiscal year.

Stock Appreciation Rights (SARs)

Effective November 1, 1989 certain Executives, including the Named Executives, became participants in a stock appreciation rights plan, known as the Senior Executive Long Term Incentive Plan. Each Executive participant is credited with phantom stock option units annually, in a number related to such Executive's salary and the common share price of the Bank at the date of award. The Chief Executive Officer's awards are based on 200% of salary, the President's awards are based on 150% of salary and the other participants, 100% of salary. Any increase in the common share price of the Bank at the end of the five-year term of the units will be paid out in a lump sum cash payment to the participant. No amounts were paid or distributed in the most recently completed fiscal year and since future payments will depend on the market value of the Bank's common shares the amount to be paid in future cannot be determined at this time. An accrual of $2,657,500 was made in fiscal 1993 against this plan and the total accrued to date is $4,791,250.

SARs GRANTED DURING YEAR ENDED OCTOBER 31, 1993

NAME	# SECURITIES UNDER SARs GRANTED (1)	% OF TOTAL SARs GRANTED TO EMPLOYEES IN FINANCIAL YEAR	EXERCISE OR BASE PRICE (1) ($/SECURITY)	MARKET VALUE OF SECURITIES UNDERLYING SARs ON THE DATE OF GRANT (1) ($/SECURITY)	EXPIRATION DATE
M.W. Barrett	68,000	26.8	23.5625	23.5625	Oct. 31, 1997
F.A. Comper	38,000	15.0	23.5625	23.5625	Oct. 31, 1997
J.S. Chisholm	17,000	6.7	23.5625	23.5625	Oct. 31, 1997
K.O. Dorricott	13,000	5.1	23.5625	23.5625	Oct. 31, 1997
R.G. Rogers	13,000	5.1	23.5625	23.5625	Oct. 31, 1997
A.G. McNally	15,000	5.9	23.5625	23.5625	Oct. 31, 1997

Note 1: The number of SARs and the base price have been adjusted to reflect the stock dividend on the common shares of the Bank paid on March 20, 1993.

AGGREGATE SARs EXERCISED DURING YEAR ENDED OCTOBER 31, 1993 AND YEAR-END SAR VALUES

NAME	# SECURITIES ACQUIRED ON EXERCISE	AGGREGATE $ VALUE REALIZED	# UNEXERCISED SARs AT OCTOBER 31, 1993 (1)(2)	$ VALUE OF UNEXERCISED IN-THE-MONEY (3) SARs AT OCTOBER 31, 1993 (1)(2)
M.W. Barrett	Nil	Nil	304,000	2,767,625
F.A. Comper	Nil	Nil	159,000	1,419,938
J.S. Chisholm	Nil	Nil	85,000	797,376
K.O. Dorricott	Nil	Nil	61,000	561,751
R.G. Rogers	Nil	Nil	67,000	621,126
A.G. McNally	Nil	Nil	75,000	694,126

Notes 1: No SARs are exerciseable before November 1, 1994.

2: The number of SARs and the base price have been adjusted to reflect the stock dividend on the common shares of the Bank paid on March 20, 1993.

3: "In-the-money" means the excess of the market value of the common shares of the Bank on October 31, 1993 over the base price of the SARs.

Pension Plan

Executives, including the Named Executives, are covered by a pension plan. The non-contributory portion, shown in the table which follows, allows benefits, for service to June 30, 1987, equal to 2.0% of the three-year average of the individual's highest salary (to a maximum salary of $85,750) times the number of years of plan membership (to a maximum of 35 years) plus 1.25% of the five-year average highest salary in excess of $85,750 (to a maximum salary of $250,000) times the number of years of plan membership. For service from July 1, 1987 the plan allows benefits equal to 1.25% of the five-year average of the individual's highest salary (to a maximum salary of $250,000) times the number of years of plan membership. In addition, effective July 1, 1987, members of the plan may contribute, on a voluntary basis, an amount equal to 4.5% of annual salary (to a maximum salary of $250,000). Benefits under the contributory portion of the plan are equal to 0.75% of the five-year average highest salary (to a maximum salary of $250,000) times the number of years of contributions. The plan allows for early retirement at age 50 with the completion of 2 years' membership. Generally, benefits are reduced by 6% per year for retirement between the ages of 50 and 54 and 3% per year for retirement between the ages of 55 and 59. No reduction is applicable for ages 60 to 64. Pension benefits are subject to Canada Pension Plan offset deductions for service after July 1, 1987.

Estimated annual benefits payable upon retirement to persons of the specified compensation and years of credited service classifications are as shown in the following table. Such amounts assume payments in the form of a joint and sixty percent survivor annuity.

ESTIMATED ANNUAL BENEFITS PAYABLE UPON RETIREMENT

$ COMPENSATION	YEARS OF SERVICE				
	15	20	25	30	35
125,000	29,014	40,042	48,709	56,522	64,334
150,000	33,701	46,292	56,522	65,897	75,272
175,000	38,388	52,542	64,334	75,272	86,209
200,000	43,076	58,791	72,147	84,647	97,147
225,000	47,763	65,041	79,959	94,022	108,084
250,000	52,451	71,291	87,772	103,397	119,022
300,000	52,451	71,291	87,772	103,397	119,022
400,000	52,451	71,291	87,772	103,397	119,022
600,000	52,451	71,291	87,772	103,397	119,022
800,000	52,451	71,291	87,772	103,397	119,022
1,000,000	52,451	71,291	87,772	103,397	119,022
1,200,000	52,451	71,291	87,772	103,397	119,022

The estimated full years of actual credited service in the pension plan, at their normal retirement date, for the Named Executives are as follows: Mr. M.W. Barrett, 35 years, Mr. F.A. Comper, 42 years, Mr. J.S. Chisholm, 40 years, Mr. K.O. Dorricott, 25 years, Mr. R.G. Rogers, 38 years, and Mr. A.G. McNally, 35 years.

Retirement Allowance for Certain Executives

Of the Named Executives, upon retirement, each of the Chief Executive Officer, the President and the Vice-Chairmen is entitled to receive an annual retirement allowance during his lifetime pursuant to retirement agreements with the Bank. Except for the Chief Executive Officer, the agreements require continuous employment with the Bank or a Bank subsidiary until the age of 62. If this condition is not met the retirement allowance is forfeited. The agreement for the Chief Executive Officer requires continuous employment with the Bank until the age of 60 but allows for early retirement at the age of 55 subject to a reduction in his retirement allowance of 5% per year for retirement between the ages of 55 and 60. The Chief Executive Officer, the President and the Vice-Chairmen each will receive an annual retirement allowance based on 70% of their best average earnings less whatever annual amount is payable to them from the pension plan of the Bank and/or a pension plan of a subsidiary. Best average earnings is the sum of the final twelve months salary plus 1/5th of the aggregated bonuses awarded to him in respect of the previous completed five fiscal years of the Bank. If any such individual is receiving an annual retirement allowance at the time of his death the Bank would, subject to certain deductions, pay annually to his surviving spouse during her lifetime sixty percent of such retirement allowance. If such individual or his spouse is receiving an annual retirement allowance at the time of the death of the survivor of them, the amount that would otherwise be paid to the spouse upon his death would be divided and paid in equal shares for the benefit of any surviving dependent children.

Based on current compensation the estimated annual benefits payable upon retirement are as follows: Mr. M.W. Barrett – $969,500, Mr. F.A. Comper – $643,300, Mr. J.S. Chisholm – $369,600, Mr. K.O. Dorricott – $307,300 and Mr. A.G. McNally – $414,400.

Composition of the Compensation Committee

The Board of Directors upon the advice of the Human Resources and Management Compensation Committee determines executive compensation for the Bank. The Human Resources and Management Compensation Committee is comprised of the six independent directors named in the "Report on Executive Compensation by the Human Resources and Management Compensation Committee". The Chairman and Chief Executive Officer is a non-voting member of this Committee, but does not participate in discussions concerning his compensation.

Report on Executive Compensation by the Human Resources and Management Compensation Committee

The Human Resources and Management Compensation Committee meets as required, but at least quarterly. The Committee reviews management compensation policies and benefits, monitors management succession planning and conducts an annual review of the overall condition and quality of the Bank's human resources. In addition, the Committee has the specific mandate to review and approve executive compensation. In carrying out this mandate, the Committee assesses on an annual basis the performance of the Chief Executive Officer against established objectives and reviews performance reports submitted for other executive officers.

Compensation Philosophy and Process

All employees of the Bank, from entry-level to chief executive officer, receive compensation based on the market value of the

job they perform, internal pay equity and their level of individual performance on the job. In order to attract and retain the best employees, the Bank regularly surveys the job market in Canada to ensure that its compensation levels and practices are fully competitive, at all levels.

To achieve this when determining executive compensation, the Human Resources and Management Compensation Committee engages independent compensation consultants to gather information regarding the compensation practices of comparable financial institutions. Based on these findings, the Committee approves ranges for the base salaries of the executive officers of the Bank.

To remain competitive with compensation practices in the industry the Bank also offers a performance related compensation plan, in addition to base salary, for all executive officers. Because executive officers participate in this plan, their salaries are generally not permitted to exceed mid-point of their salary range. Instead, they are eligible to receive bonuses equal to a percentage of their base salaries. After a formal review process, these bonuses are awarded on the basis of a combination of the individual executive officer's own performance, their group's performance, and the overall performance of the Bank.

The Board of Directors will set aside funds for these bonus awards only when the Bank's return on equity is at least five percentage points higher than the equivalent of a risk-free rate of return (defined as the tax-adjusted yield of a 10-year Government of Canada bond).

Individual and group performance is assessed objectively by measuring results achieved, in absolute terms, compared with pre-determined goals and standards. The overall performance of the Bank is assessed, in relative terms, against the performance of its peer group which, in addition to the Bank, comprises Royal Bank of Canada, Canadian Imperial Bank of Commerce, The Bank of Nova Scotia, The Toronto-Dominion Bank and National Bank of Canada[1]. This comparison is reported publicly as an integral part of the Bank's reports to shareholders, and is shown for fiscal 1992 in the table below. This "scorecard" demonstrates that the Bank achieved its goal of top-tier (top two) status on the major measures of financial performance and condition. The assessment and compensation of all executive officers in 1993 is influenced significantly by this scorecard.

The more senior the employee, the more closely the employee's compensation is tied to the performance of the Bank. For example, for a vice-president, incentive bonuses generally equal less than one-quarter of base salary; for the Chief Executive Officer, more than two-thirds. This reflects the reality that the more senior the officer, the more impact his or her actions will have on the Bank's performance.

	BANK OF MONTREAL			SIX BANKS (1)	
KEY PERFORMANCE MEASURES	RANK 1991	RANK 1992	PERFORMANCE 1992	AVERAGE 1992	TOP TIER 1992
Return on Common Shareholders' Investment	3rd	1st	31.8%	8.8%	26.8%
Credit Ratings	3rd	3rd	A+	A+	AA-
Profitability	3rd	2nd	14.1%	5.7%	14.1%
Earnings Growth	2nd	1st	7.5%	(50.2)%	6.8%
Productivity (2)	6th	3rd	62.2%	62.0%	58.3%
Capital	4th	3rd	8.91%	8.99%	9.17%
Asset Quality (3)	1st	2nd	0.85%	1.49%	0.85%
Liquidity	1st	1st	31.1%	22.3%	23.0%

Notes 1: Bank of Montreal, Royal Bank of Canada, Canadian Imperial Bank of Commerce, The Bank of Nova Scotia, The Toronto-Dominion Bank and National Bank of Canada.

2: Productivity is measured by the ratio of non-interest expense to total revenue.

3: Asset Quality is measured by the ratio of provision for credit losses to average total loans.

Since 1990, the market value of the shareholders' investment in the Bank has increased by approximately $3 billion, reflecting a doubling of the common share price. Improving the return to shareholders is a major objective of the top executive officers of the Bank. Striking a proper balance between short and long-term considerations is critical to the long-term health of the Bank and sustaining growth in share value. The Committee believes that long-term incentives play an important role in aligning the interests of executive officers and the Bank's shareholders. In keeping with this principle, the Bank established a modified stock appreciation rights plan in 1989, the Senior Executive Long Term Incentive Plan, which is available to executive officers with the rank of executive vice-president and above (14 executive officers are currently eligible). Under this plan, participants are allotted a number of share option units each year in proportion to the participant's base salary and based on the share price at year-end. The value of the units fluctuates with the price of the common shares of the Bank. Five years after each issue of units is allotted, the plan participants will be paid a sum equal to the amount by which the value of these units has risen, if any. Plan participants will be eligible to receive payments under this plan starting in fiscal 1995.

Chief Executive Officer Compensation

The performance of the Chief Executive Officer is measured not only against the goals, objectives and standards on the financial scorecard, but also on a variety of non-financial dimensions. The Human Resources and Management Compensation

[1] To reflect the increasing North American orientation of the Bank's strategy, a peer group, currently comprising 18 banks, will be the comparator group. The new peer group will comprise BankAmerica Corporation, Bankers Trust New York Corporation, The Bank of New York Company, Inc., Banc One Corporation, The Chase Manhattan Corporation, Chemical Banking Corporation, Citicorp N.A., First Union Corporation, National Bank of Detroit, NationsBank Corporation, PNC Bank Corp., J.P. Morgan & Co. Incorporated, Wells Fargo & Company, Royal Bank of Canada, Canadian Imperial Bank of Commerce, The Bank of Nova Scotia, The Toronto-Dominion Bank and Bank of Montreal.

Committee, in consultation with the Board of Directors, prepares annually a written evaluation of the Chief Executive Officer, covering performance in the following areas:

Financial performance and condition,
Marketing and customer satisfaction,
Human resources management,
Technology and infrastructure management,
Community service and Bank reputation,
Strategic positioning, and
Corporate governance.

Based on this performance review, which is documented and formally discussed with him, the Human Resources and Management Compensation Committee rates the performance of Mr. Barrett, the Chairman and Chief Executive Officer. In addition, the Committee comments on the Chairman's appraisal of the President and Chief Operating Officer, and individually reviews the appraisals of the Vice-Chairmen and certain other executive officers. The rating assigned is directly related to the size of bonus awards and salary adjustments.

On the basis of his own performance and the Bank's performance in fiscal 1992 (the most recent year reviewed), Mr. Barrett was awarded an incentive bonus equal to 112.5% of his base salary. Executive salaries are reviewed annually and adjusted on May 1. In 1993, Mr. Barrett was awarded a 12.5% increase in his base salary. This increase was the final portion of a four-year plan to bring Mr. Barrett's compensation to a level equivalent to that of his peers. The table under the caption "Executive Compensation" summarizes the compensation data for the Chairman and Chief Executive Officer and the other Named Executives, as required by the new regulations under the Securities Act (Ontario).

Summary

In summary, all employees of the Bank receive compensation based on the same set of principles:

- Market forces, independently surveyed, determine pay levels; total compensation paid for each job classification is competitive with the market for similar jobs and levels of performance, and reflects the principle of pay equity; and
- For any given job classification, if the market generally provides for incentive pay programs in addition to base pay, the Bank will provide competitive programs.

The amount and nature of executive compensation is not determined by Bank management, but by the Board of Directors, acting on behalf of shareholders. Their decisions are based on advice provided by independent compensation consultants retained directly by the Committee, and conform to the same principles applied to all other employees of the Bank. The principle of "pay for performance" is strongly reinforced in the design of all compensation plans.

Compensation for the Chairman and Chief Executive Officer and the other executive officers was determined following the principles and procedures outlined in this report.

Submitted by the Human Resources and Management Compensation Committee of the Board of Directors:

Ralph M. Barford (Chairman)
Charles F. Baird (retired January 18, 1993)
Pierre Côté
C. William Daniel
Louis A. Desrochers
John F. Fraser (appointed January 18, 1993)
Lorne C. Webster
Matthew W. Barrett (non-voting)

Performance Graph

The following compares the total cumulative shareholder return for $100 invested in common shares of the Bank on October 31, 1988 with the cumulative total return of the TSE 300 Stock Index for the five most recently completed financial years.

Note: Dividends declared on common shares of the Bank are assumed to be reinvested at the share price on the payment date. The TSE 300 Index is the total index return, including dividends reinvested.

INDEBTEDNESS OF DIRECTORS, EXECUTIVE OFFICERS AND SENIOR OFFICERS

As at November 19, 1993 the aggregate amount of indebtedness incurred in connection with the purchase of securities of the Bank or any of its subsidiaries by all directors, officers, employees and former directors, officers and employees of the Bank or any of its subsidiaries amounted to $19,760,428.

The following table sets forth the indebtedness (other than routine indebtedness) incurred by directors and Executives for the purchase of securities of the Bank or any of its subsidiaries.

NAME AND PRINCIPAL POSITION	INVOLVEMENT OF ISSUER OR SUBSIDIARY	LARGEST $ AMOUNT OUTSTANDING DURING YEAR ENDED OCTOBER 31, 1993	$ AMOUNT OUTSTANDING AS AT NOVEMBER 19, 1993	# FINANCIALLY ASSISTED SECURITIES PURCHASES DURING YEAR ENDED OCTOBER 31, 1993	SECURITY FOR INDEBTEDNESS
M.W. Barrett Chairman and Chief Executive Officer	Bank as Lender	275,000	275,000	Nil	Nil
F.A. Comper President and Chief Operating Officer	Bank as Lender	136,983	136,983	Nil	Nil
N.R. Macmillan Executive Vice-President	Bank as Lender	4,130	Nil	Nil	Nil
M.R.P. Rayfield Executive Vice-President	Bank as Lender	5,711	Nil	Nil	Nil

Mr. M.W. Barrett, Toronto, has a loan for the purchase of common shares of the Bank at an annual rate of interest of prime. The loan matures on December 1, 1998.

Mr. F.A. Comper, Toronto, has a loan for the purchase of common shares of the Bank at an annual rate of interest of prime. The loan matures on December 1, 1993.

Mr. N.R. Macmillan, Executive Vice-President, Risk Management Policy, Toronto, had a loan for the purchase of common shares of the Bank at an annual rate of interest of 1/2 prime.

Mr. M.R.P. Rayfield, Executive Vice-Presidenf, Corporate Banking, Toronto, had a loan for the purchase of common shares of the Bank at an annual rate of interest of 1/2 prime.

As at November 19, 1993 the aggregate amount of indebtedness incurred, other than in connection with the purchase of securities of the Bank or any of its subsidiaries, by all directors, officers, employees and former directors, officers and employees of the Bank or any of its subsidiaries amounted to $1,068,481,752. This represents 15,533 mortgage loans in the aggregate amount of $821,429,721 and 27,155 personal loans in the aggregate amount of $247,052,031.

The following table sets forth the indebtedness (other than routine indebtedness) incurred by directors and Executives other than for the purchase of securities of the Bank or any of its subsidiaries.

NAME AND PRINCIPAL POSITION	INVOLVEMENT OF ISSUER OR SUBSIDIARY	LARGEST $ AMOUNT OUTSTANDING DURING YEAR ENDED OCTOBER 31, 1993	$ AMOUNT OUTSTANDING AS AT NOVEMBER 19, 1993
M.W. Barrett Chairman and Chief Executive Officer	Bank as Lender	94,163	75,027
J.S. Chisholm Vice-Chairman	Bank as Lender	10,160	6,358
K.O. Dorricott Vice-Chairman	Bank as Lender	Nil	6,000
R.G. Rogers Senior Executive Vice-President	Bank as Lender	126,316	55,835
L.C. Atkinson Executive Vice-President	Bank as Lender	490,169	461,383
L.F. Darlington Executive Vice-President	Bank as Lender	267,983	261,224
M.R.P. Rayfield Executive Vice-President	Bank as Lender	343,694	307,003
R.B. Wells Executive Vice-President	Bank as Lender	9,400	9,400
S. Zargham Senior Vice-President	Bank as Lender	298,489	285,100
C.B. Begy Vice-President	Bank as Lender	324,266	309,580
A.G. Paddock Vice-President	Bank as Lender	72,280	66,100
V.K. Sarin Vice-President	Bank as Lender	163,534	141,961

Mr. M.W. Barrett, Toronto, has an ordinary loan in the amount of $75,027 at an annual rate of interest of prime. The loan matures on September 17, 1996.

Mr. J.S. Chisholm, Vice-Chairman, Corporate and Institutional Financial Services, Toronto, has an investment loan in the amount of $6,358 at an annual rate of interest of 1/2 prime. The loan matures on June 5, 1995.

Mr. K.O. Dorricott, Vice-Chairman, Corporate Services, Toronto, has an ordinary loan in the amount of $6,000 at an annual rate of interest of 1/2 prime. The loan matures on January 2, 1994.

Mr. R.G. Rogers, Senior Executive Vice-President, Personal and Commercial Financial Services, Toronto, has an ordinary loan in the amount of $55,835 at annual rates of interest of 1/2 prime and prime. The loan matures on July 26, 1995.

Mr. L.C. Atkinson, Executive Vice-President and Chief Economist, Toronto, has an ordinary loan maturing June 25, 2001 in the amount of $82,267 at annual rates of interest of 1/2 prime and prime, an ordinary loan maturing January 1, 1994 in the amount of $23,000 at an annual rate of interest of prime and a mortgage loan secured against his residence maturing May 1, 1994 in the amounts of $45,202, $261,614 and $49,300 at annual rates of interest of 3%, 7.75% and 9.25% respectively.

Mr. L.F. Darlington, Executive Vice-President, Operations, Toronto, has an ordinary loan maturing September 8, 1997 in the amount of $26,959 at annual rates of interest of 1/2 prime and prime and an ordinary loan maturing July 9, 1998 in the amount of $234,265 at an annual rate of interest of prime.

Mr. M.R.P. Rayfield, Executive Vice-President, Corporate Banking, Toronto, has an ordinary loan maturing March 25, 1994 in the amount of $2,148 at an annual rate of interest of 1/2 prime and a mortgage loan secured against his residence maturing August 1, 1996 in the amounts of $42,364, $125,675 and $136,816 at annual rates of interest of 3%, 9.75% and 11.25% respectively.

Mr. R.B. Wells, Executive Vice-President and Chief Financial Officer, Finance Group, Toronto, has an ordinary loan in the amount of $9,400 at an annual rate of interest of 1/2 prime. The loan matures on October 25, 1994.

Mr. S. Zargham, Senior Vice-President and Chief Auditor, Toronto, has an investment loan maturing October 10, 1996 in the amount of $89,768 at annual rates of interest of 1/2 prime and prime and a mortgage loan secured against his residence maturing May 1, 1996 in the amounts of $112,017 and $83,315 at annual rates of interest of 3% and 9.25% respectively.

Mr. C.B. Begy, Vice-President and Chief Accountant, Toronto, has an ordinary loan maturing May 20, 1997 in the amount of $15,707 at an annual rate of interest of 1/2 prime and a mortgage loan secured against his residence maturing October 1, 1997 in the amount of $293,873 at an annual rate of interest of 6.5%.

Mr. A.G. Paddock, Vice-President, Finance, Finance Group, Toronto, has an investment loan in the amount of $66,100 at annual rates of interest of 1/2 prime and prime. The loan matures on July 6, 2002.

Mr. V.K. Sarin, Vice-President and Corporate Controller, Toronto, has an ordinary loan maturing January 10, 1995 in the amount of $5,709 at an annual rate of interest of 1/2 prime and a mortgage loan, secured against his residence maturing on October 1, 1997 in the amounts of $41,870, $66,946 and $27,436 at annual rates of interest of 3%, 7% and 8.5% respectively.

DIRECTORS' AND OFFICERS' INSURANCE

On April 27, 1982, the Board of Directors authorized the purchase of liability insurance for Bank directors and officers. In respect of the policy year from October 31, 1993 to October 31, 1994, the premium payable by the Bank is $440,000. The policy provides coverage for a $15 million total limit for each and every loss, with a deductible of $10,000 for each director or officer and an aggregate deductible of $100,000 if two or more directors and officers are involved in a loss.

Subject to the limitations of the Bank Act and By-law Seven of the Bank, a director or officer would be entitled to claim from the Bank costs, charges and expenses incurred (including an amount paid to settle an action or satisfy a judgment) in respect of any action or proceeding to which a director or officer is a party by reason of being a Bank director or officer.

DIRECTORS' APPROVAL

This Proxy Circular is dated as of November 19, 1993 and except as otherwise indicated, all the information contained in this Proxy Circular is given as of that date. The Board of Directors of the Bank has approved the contents and the sending of this Proxy Circular to the shareholders.

Dereck M. Jones
Senior Vice-President, Secretary
and General Counsel

SCHEDULE A

STATEMENT OF ATTENDANCE OF DIRECTORS

For the 12 month period ended November 30, 1993

DIRECTOR	RESIDENCE	BOARD MEETINGS ATTENDED	EXECUTIVE COMMITTEE MEETINGS ATTENDED	OTHER COMMITTEE MEETINGS ATTENDED*
Matthew W. Barrett	Toronto, Ont.	9	13	14
F. Anthony Comper	Toronto, Ont.	9	12	20
Charles F. Baird *(retired Jan. 18, 1993)*	Bethesda, Md.	1	2	2
Ralph M. Barford	Toronto, Ont.	9	13	14
David R. Beatty, O.B.E.	Toronto, Ont.	6	7	1
Peter J. G. Bentley, O.C., LL.D.	Vancouver, B.C.	8		15
Pierre Côté, C.M.	Quebec, Que.	7	13	16
C. William Daniel, O.C., LL.D.	North York, Ont.	8	11	10
Graham R. Dawson	Vancouver, B.C.	8		7
Louis A. Desrochers, Q.C.	Edmonton, Alta.	8	12	7
John F. Fraser, O.C., LL.D.	Winnipeg, Man.	7	11	9
John H. Hale	London, England	9		4
Donald S. Harvie, O.C.	Calgary, Alta.	6		10
Robert E. Kadlec	West Vancouver, B.C.	9		7
Betty Kennedy, O.C., LL.D.	Milton, Ont.	9	13	10
Geraldine A. Kenney-Wallace, LL.D.	Toronto, Ont.	9		6
Stanley Kwok *(elected Jan. 18, 1993)*	West Vancouver, B.C.	6		2
J. Blair MacAulay	Oakville, Ont.	9	14	11
Ronald N. Mannix	Calgary, Alta.	8		8
Robert H. McKercher, Q.C.	Saskatoon, Sask.	9		11
Eric H. Molson	Montreal, Que.	9		8
Jean C. Monty	Toronto, Ont.	8		8
William D. Mulholland, LL.D.	Georgetown, Ont.	7	2	4
Jerry E.A. Nickerson	North Sydney, N.S.	9		8
Jeremy H. Reitman	Westmount, Que.	9		11
Guylaine Saucier, C.M., F.C.A.	Montreal, Que.	8		8
William W. Stinson	Montreal, Que.	8		9
Mary Alice Stuart, C.M., O.ONT., LL.D.	Toronto, Ont.	9		17
James C. Thackray	Toronto, Ont.	8		16
Lorne C. Webster	Montreal, Que.	9	14	15
B. Kenneth West	Lake Forest, Ill.	8		

*Includes attendance at Board meetings of the Pension Fund Society.

SUMMARY OF BOARD AND COMMITTEE MEETINGS HELD

Board	9
Audit Committee	3
Conduct Review Committee	4
Donations Committee	4
European Committee	4
Executive Committee	14
Human Resources and Management Compensation Committee	5
Nominating Committee	4
Pension Fund Society Board	4
Examining Committee	2
Investment Committee	4
Regional Committees of the Board of Directors	
Eastern	4
Central	3
Western	4
Risk Review Committee	4
Total Number of Meetings Held	72

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Financial Goals & Measures

SUPPLEMENT TO THE 1993 ANNUAL REPORT

BANK OF MONTREAL IS A FULL-SERVICE NORTH AMERICAN BANK, OFFERING A COMPREHENSIVE RANGE OF FINANCIAL PRODUCTS TO MEET THE NEEDS OF CUSTOMERS. BECAUSE THE PRIMARY GOAL OF THE BANK'S FINANCIAL STRATEGY IS TO INCREASE SHAREHOLDER VALUE WHILE SAFEGUARDING DEPOSITORS' FUNDS, WE CONSTANTLY MONITOR A SET OF EIGHT KEY FINANCIAL MEASURES WHICH BALANCE PROFITABILITY AND PRUDENTIAL CONCERNS. THE GRAPHS AND STATISTICS ON THE FOLLOWING PAGES ASSESS BANK OF MONTREAL'S PERFORMANCE ON THESE MEASURES BY COMPARISON TO THE SIX LARGEST CHARTERED BANKS IN CANADA. OUR GOAL IS TO RANK CONSISTENTLY AMONG THE TOP TWO OF THESE SIX BANKS ON ALL OF THESE MEASURES. THE BACK PANEL COMPARES BANK OF MONTREAL'S PERFORMANCE ON THESE MEASURES TO THE AVERAGE OF 18 MAJOR NORTH AMERICAN BANKS.

Bank of Montreal

Bank of Montreal's performance ranking among the six major Canadian banks in 1993, as indicated in the table below, was equal to or better than the average on six of the eight financial goals and measures. Also, the Bank achieved top-tier (top two) status on five of the measures in 1993.

	Bank of Montreal			Six Banks*	
Key Performance Measures	Rank 1992	**Rank 1993**	**Performance 1993**	**Average 1993**	**Top Tier 1993**
Return on Common Shareholders' Investment	1st	**4th**	**18.7%**	**20.1%**	**25.5%**
Credit Ratings	3rd	**3rd**	**A+**	**A+**	**AA–**
Return on Equity	2nd	**2nd**	**14.1%**	**9.0%**	**14.1%**
Earnings Growth	1st	**4th**	**10.9%**	**57.4%**	**NM**
Productivity	3rd	**2nd**	**60.0%**	**62.7%**	**60.0%**
Capital Adequacy	3rd	**2nd**	**10.3%**	**9.8%**	**10.3%**
Asset Quality	2nd	**2nd**	**0.94%**	**1.10%**	**0.94%**
Liquidity	1st	**1st**	**30.3%**	**24.0%**	**24.6%**

*Bank of Montreal, Royal Bank of Canada, Canadian Imperial Bank of Commerce, The Bank of Nova Scotia, The Toronto-Dominion Bank and National Bank of Canada.
NM – not meaningful.

SHAREHOLDER RETURN ON INVESTMENT

The Bank measures return on common shareholders' investment by expressing the total of dividends and growth in the share price during the year as a percentage of the share price at the beginning of the fiscal year. Bank of Montreal's common share price increased over $3.00 to $26⅞ during 1993, representing a capital gain of 14.0%. This increase in share price, together with a dividend yield of 4.7%, generated a total return on investment of 18.7%. Over the last four fiscal years, the annualized return on the Bank's common shares was 20.8% — the second highest return among the six major Canadian banks.

Additional discussion in the 1993 Annual Report on page 26.

Return on Common Shareholders' Investment
18.7% in 1993

Common Dividends and Unrealized Capital Gain (Loss) as a % of Share Cost at Beginning of Fiscal Year

CREDIT RATINGS

External credit rating agencies closely monitor an organization's financial performance and rate its financial strength relative to other borrowers on a regular basis. These ratings affect the organization's cost of borrowing and ability to access debt markets. All major credit rating agencies maintained their strong rating of Bank of Montreal during fiscal 1993. Bank of Montreal's subordinated debenture rating by Standard & Poor's remained at A+, equal to the average of the six major Canadian banks.

1993 was another challenging year for the banking industry. Our customers' finances continued to be adversely affected by the weak economic environment, limiting demand for banking services and bringing higher than normal loan losses. At the same time, greater stability in the level of interest rates and sharper competition for available business reduced profit margins in comparison to 1992.

At Bank of Montreal, we continued to work hard to ensure that the Bank remains a top-tier performer, consistently achieving first or second place among the six major Canadian banks. In March 1993 we introduced *Vision 2002*, the strategic direction that will take Bank of Montreal into the next century. By focusing on expanding in key priority markets, and achieving earnings and asset diversification through a broader economic and geographic earnings base, *Vision 2002* is designed to increase the value of your investment and keep Bank of Montreal in the top tier of the industry tomorrow as well as today.

You will find a more detailed discussion of our vision in the front section of the 1993 Annual Report. In this supplement to the Annual Report, I shall briefly summarize the highlights of our financial performance in 1993 and compare it to that of our Canadian peers.

For the fiscal year ended October 31, 1993, the Bank achieved a return on investment of 18.7%. This return comprises a dividend yield of 4.7% and a capital gain of 14.0%. During 1993 the Bank's market capitalization increased by over $900 million to $6.7 billion.

The Bank continued to generate strong earnings growth and a superior return on equity. Continuing revenue growth and improving productivity more than offset a higher provision for credit losses and increased net income for 1993 by 10.9% to $709 million. The Bank's return on equity for the year was 14.1% — second among the six major Canadian banks. This is the fourth consecutive year that the Bank achieved a return on equity within the 14% to 15% range, despite weak economic conditions and a historically low inflation rate.

The productivity ratio or cost to revenue ratio (as measured by the proportion of non-interest expense to total revenue) improved to 60.0%, the best level we have achieved in a decade, and ranked Bank of Montreal in second place. This improvement reflects our success in continuing to manage costs while at the same time earning higher revenues in our priority markets.

The Bank's total capital ratio strengthened to 10.3% — well in excess of the 8% minimum regulatory requirement. The Bank's Tier 1 capital ratio, which consists of equity capital, is the strongest among major Canadian banks at 7.4%.

The Bank's asset quality ratio in 1993 was 0.94%, placing us second in our Canadian peer group. This showing reflected a provision for credit losses of $675 million. The 1993 level of specific provisions declined by $69 million from 1992 despite a higher level of provision required for real estate.

We maintained our strong liquidity position with a ratio of 30.3%, the best in the Canadian industry. Our high liquidity gives us the flexibility to expand customer relationships when profitable opportunities arise.

Overall, these are encouraging results. For all our stakeholders, the Bank constantly strives to maintain a balance between profitability and prudential objectives, and in particular, to earn a consistently superior return on your investment in the Bank. We have made significant progress toward those goals in 1993 and over the past four years. But there is still much to be done, especially as our strategic focus expands to include all of North America. That trend makes it appropriate to compare our performance with our banking peers across North America, and this year for the first time we are providing a scorecard comparison with the 18 largest North American banks. You will find it on the back panel, and I hope it will show you both how far Bank of Montreal has come, and the areas where we have still to improve to match our North American peers.

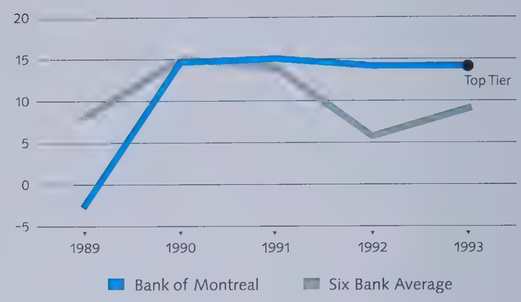
F. ANTHONY COMPER
PRESIDENT AND
CHIEF OPERATING OFFICER

RETURN ON EQUITY

Profitability, as measured by return on average common shareholders' equity, was 14.1% for 1993, unchanged from last year. Despite continuing weak economic conditions and a historically low level of inflation, the Bank achieved its fourth consecutive year of returns on equity in the range of 14.0% to 15.0%. Bank of Montreal's return on equity in 1993 ranked second among the six major Canadian banks.

Additional discussion in the 1993 Annual Report on page 27.

Profitability – 14.1% Return on Common Shareholders' Equity



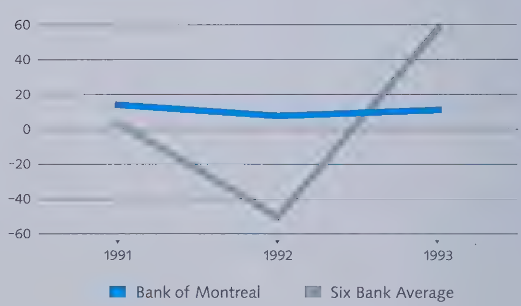
EARNINGS GROWTH

Net income in 1993 increased 10.9% to $709 million. The increase was due to higher business volumes, which generated revenue growth, and to improved productivity, more than offsetting the higher provision for credit losses. This was the Bank's fourth consecutive year of earnings growth. This growth averaged 10.8% compared to an average decline of 7.3% for the industry over the period 1990–1993. Earnings growth for the major banks in 1993 averaged 57.4%, reflecting the low earnings level in 1992 recorded by several Canadian banks.

Additional discussion in the 1993 Annual Report on page 30.

Earnings Growth – Consistent Growth

% Change in Net Income Year over Year



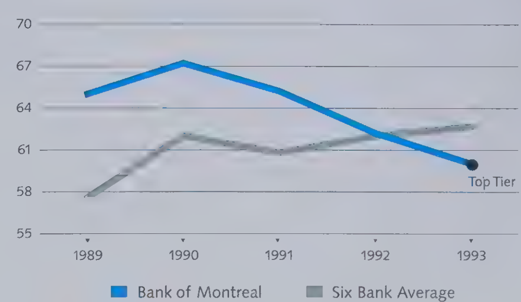
PRODUCTIVITY

Productivity is measured by the ratio of non-interest expense to total revenue; a lower ratio indicates better productivity. In 1990, the Bank established a short-term goal of achieving a productivity ratio equal to or better than that of the six major Canadian banks by 1993. This goal was achieved. In 1993, the productivity ratio averaged 60.0%, better than the industry average of 62.7%. The continuing improvement in productivity reflects our effective cost control program which has held the rate of expense growth well below the rate of growth in revenues. In 1989, the productivity ratio was 65%. At 1993 revenue levels, each one percentage point reduction in the ratio is the equivalent of removing nearly $50 million from our cost base.

Additional discussion in the 1993 Annual Report on page 37.

Productivity – Continuously Improving

Non-Interest Expense as a % of Total Revenue



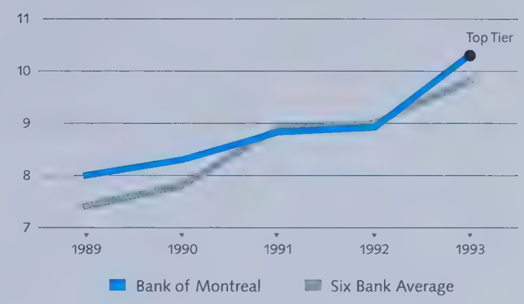
CAPITAL ADEQUACY

Capital adequacy is measured by the ratio of equity and long-term subordinated debt to the level of assets, weighted by the degree of risk involved. The Bank's total risk-weighted capital ratio strengthened to 10.3% (11.1% based on the U.S. guidelines), well in excess of regulatory requirements of 8% and above the industry average. The Bank strengthened its capital base in 1993 primarily through earnings retention, the issue of subordinated debentures and notes, and the issue of common shares under the Shareholder Dividend Reinvestment and Share Purchase Plan. The Bank's Tier 1 capital, which consists of equity capital and is the more important component of capital, increased to 7.4% of risk-weighted assets — the strongest among Canadian banks in 1993.

Additional discussion in the 1993 Annual Report on page 39.

Capital – Exceeded Requirements

Capital as a % of Risk-Weighted Assets at Year-End



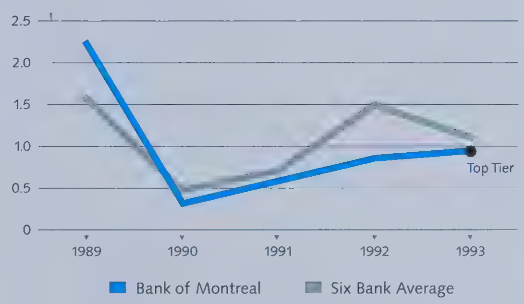
ASSET QUALITY

Asset quality is measured by the ratio of provision for credit losses to average total loans. Consequently, the lower the ratio, the better the asset quality. The Bank's asset quality ratio in 1993 was 0.94% and ranked second among the major Canadian banks. During 1993, the Bank recorded a provision for credit losses of $675 million, compared to $550 million in 1992, which was net of the application of $244 million of excess country risk provision. Improvements in the non-real estate loan portfolio offset continuing weakness in the commercial real estate sector, resulting in lower specific provisions of $69 million in 1993. The Bank also maintained its general provision of $100 million. Over the last four fiscal years, Bank of Montreal's asset quality averaged 0.70%, better than the industry average of 0.96%.

Additional discussion in the 1993 Annual Report on page 41.

Asset Quality – Stable

Provision for Credit Losses as a % of Average Loans



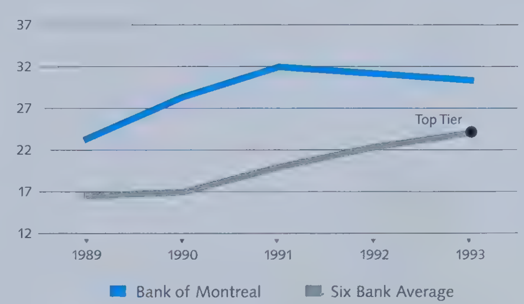
LIQUIDITY

Liquidity is measured by the proportion of cash resources and securities to total assets. The Bank continues to have the highest level of liquidity at 30.3%, compared to the industry average of 24.0%. The general level of liquidity in the industry increased during 1993, as limited loan demand led to a higher level of cash and securities. The high level of liquidity makes it possible for the Bank to meet financial commitments and to provide the flexibility to expand customer relationships when opportunities arise.

Additional discussion in the 1993 Annual Report on page 51.

Liquidity – Substantial Flexibility and Strength

Cash and Securities as a % of Assets at Year-End



Our growing presence in the United States and the North American thrust of our strategy make it appropriate to expand the scope of our financial performance comparison. The table below shows the ranking of the Bank's performance in each of the eight measures, relative to the 18 largest North American banks.* Bank of Montreal performed better than the 18-bank average on four of the eight financial goals and measures in 1993 despite a rebound in earnings experienced by the United States banking industry this year.

Key Performance Measures	Bank of Montreal Performance 1993	18 Banks* Average 1993	Bank of Montreal vs. average
Return on Common Shareholders' Investment	18.7%	35.8%	Worse
Credit Ratings	A+	A	Better
Return on Equity	14.1%	14.2%	Worse
Earnings Growth	10.9%	76.2%	Worse
Productivity	60.0%	62.1%	Better
Capital Adequacy**	11.1%	12.5%	Worse
Asset Quality	0.94%	1.21%	Better
Liquidity	30.3%	25.1%	Better

*The selection of the 18 largest banks is based on size of common shareholders' equity: Bank of Montreal, Royal Bank of Canada, Canadian Imperial Bank of Commerce, The Bank of Nova Scotia, The Toronto-Dominion Bank, The Chase Manhattan Corporation, J.P. Morgan & Co. Inc., Citicorp N.A., Chemical Banking Corporation, Bankers Trust New York Corporation, The Bank of New York Company, Inc., BankAmerica Corporation, First Union Corporation, NationsBank Corporation, National Bank of Detroit, Banc One Corp., Wells Fargo & Company, and PNC Bank Corp.

**On U.S. basis.

Note: 1993 performance for the U.S. banks was based on the twelve-month period ending September 30, 1993 to approximate the Canadian bank fiscal year which ends on October 31.

FOR COPIES OF THE ANNUAL REPORT, PLEASE WRITE TO THE PUBLIC AFFAIRS DEPARTMENT OF THE BANK, P.O. BOX 6002, POSTAL STATION PLACE D'ARMES, MONTREAL, QUEBEC H2Y 3S8, OR P.O. BOX 1, 1 FIRST CANADIAN PLACE, TORONTO, ONTARIO M5X 1A1.

FOR OTHER SHAREHOLDER INFORMATION, PLEASE WRITE TO THE SECRETARY'S DEPARTMENT, P.O. BOX 6002, POSTAL STATION PLACE D'ARMES, MONTREAL, QUEBEC H2Y 3S8. (ON PEUT OBTENIR SUR DEMANDE UN EXEMPLAIRE EN FRANÇAIS.)

SUPPLEMENTAL FINANCIAL DATA IS AVAILABLE FROM INVESTOR RELATIONS, P.O. BOX 1, 1 FIRST CANADIAN PLACE, TORONTO, ONTARIO M5X 1A1.

PRINTED IN CANADA

Bank of Montreal

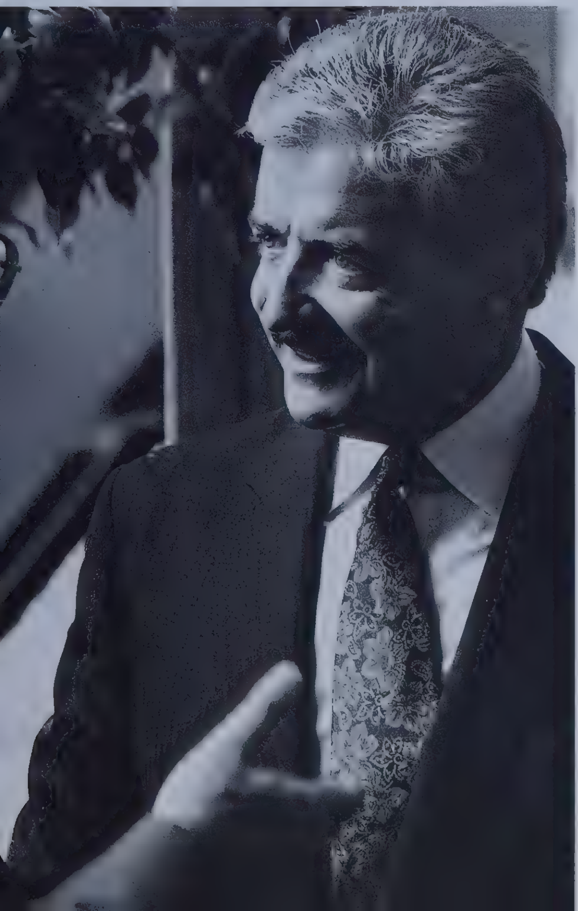
We're Paying Attention

AS CANADA'S FIRST BANK, BANK OF MONTREAL HAS A LONG TRADITION OF LEADERSHIP WHICH IS VERY MUCH PART OF OUR STRATEGY TODAY. THE ECONOMIC AND INDUSTRIAL RESTRUCTURING THAT BEGAN THIS DECADE HAS BEEN LIKENED TO THE INDUSTRIAL REVOLUTION AND THIS PACE OF CHANGE CAN ONLY ACCELERATE AS WE MOVE INTO THE NEW MILLENNIUM. AT BANK OF MONTREAL WE HAVE EMBRACED THESE CHANGES, ONCE AGAIN PROVIDING COMMERCIAL AND FINANCIAL LEADERSHIP FOR OUR CUSTOMERS THROUGHOUT NORTH AMERICA.

"By the early years of the new century Vision 2002 will make us the first full-service financial organization to span North America."

A FIRST BANK FOR NORTH AMERICA

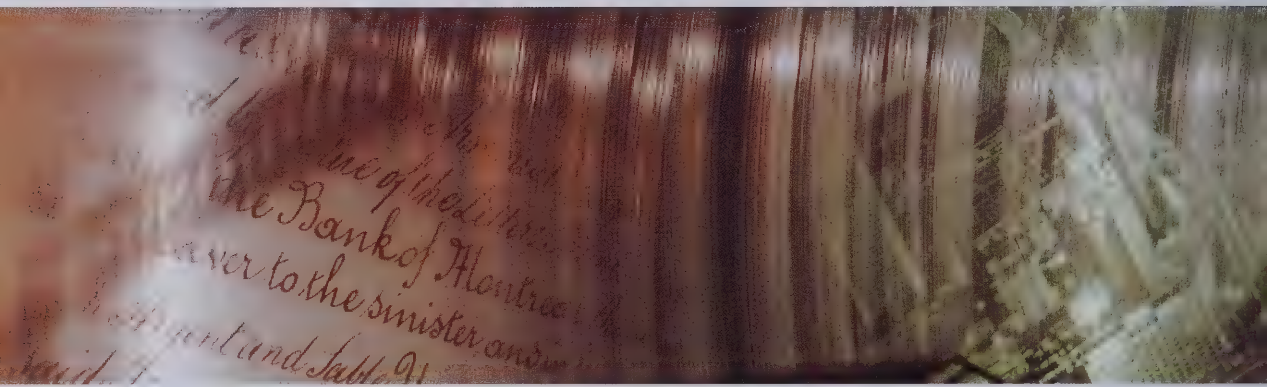
BEING FIRST IS A BANK OF MONTREAL TRADITION. In 1817 we became Canada's first bank. In 1832 we financed the first Canadian railway, launching the connections essential to this country's growth. Almost 150 years later, we were the first bank to establish a national *electronic* connection, linking all our branches to a central computer. And in 1993 we continued to set the pace for the Canadian industry with our newest first, continent-wide banking.



In June we announced our North American strategy for the 1990s, *Vision 2002.* By the early years of the new century it will make us the first full-service financial organization to span North America. Canada, of course, will always be our home and our number one market. We shall invest, innovate, and compete more vigorously than ever in this country. At the same time, when we look south of the border we see that the vast American market is a natural extension of our home market. Forty percent of Canada's exports, for example, go to the eight Midwestern states we have identified as our target for personal and commercial financial services. The United States is a market with a potential for steady growth that can't be profitably matched anywhere else.

When we look in the other direction, *Vision 2002* becomes a strategic initiative to meet the certainty, sooner or later, of increased competition from American banks in the *Canadian* market. Unless Canadian financial service institutions are able to offer full-service banking in both countries, they may find themselves at a serious competitive disadvantage — *and* miss an exceptional opportunity for growth.

And when we look *beyond* this continent, we see that global competition is forcing banks everywhere to grow in size, identify their markets, and use their competitive advantages to the full. Thus *Vision 2002* is also our creative response to the ever-increasing integration of the world's economies. We shall continue to be an international bank, doing business in key markets around the globe. But tomorrow all of North America will be our base, rather than Canada alone.



We know that the United States is one of the most competitive financial services markets in the world. Success will not come quickly or easily. But we know, too, that we are not newcomers. On the contrary, we have been doing business in the United States since 1818. We have been in the Midwest since 1861. And we have been steadily building a full-service presence in the United States, business by business, since we acquired Harris Bankcorp, Inc. in Chicago in 1984.

Moreover, our Canadian heritage gives us competitive strengths south of the border. Our century of experience in running a continent-wide distribution system. Our successful philosophy of community banking. Our large deposit base, which gives us the advantage of a stable, low-cost source of funds. The long-standing importance of international trade and investment for the Canadian economy, which has developed our international banking skills. And the exceptionally wide range of services we have come to offer allows us to design creative solutions for our clients' needs. "Relationship banking" is our working reality.

Our Canadian experience will be decisive in still another way. We are used to playing in a tough league. With approximately ten major players and many smaller ones, the Canadian financial services industry is fiercely competitive. And Canadians, rightly, expect their banks to deliver high quality at a reasonable price. If competitive advantage abroad truly grows out of strong competitive pressures at home, as I believe it does, we shall continue to do well in the United States.

Finally, we can count on the great and growing excellence of our people. We are absolutely *determined* to have the best people in the financial services industry, anywhere in North America. We have already made notable progress along that road, and when the Institute for Learning, our state-of-the-art education and training

centre, opens early in 1994 it will give us an advantage the competition will find hard to match.

In these pages of the Annual Report, you can learn how each part of the Bank of Montreal family plans to make *Vision 2002* a successful reality. I urge you to read them — and to keep in mind that our North American strategy is both an exhilarating new departure, with immense promise for all our stakeholders, and a natural development from our proud Canadian past. It's an old tradition — and a real first. And that's as it should be, for Canada's first bank.

M.W. Barrett

MATTHEW W. BARRETT
CHAIRMAN AND
CHIEF EXECUTIVE OFFICER

FOUR PILLARS ON ONE BASE

Vision 2002 is much more than an organization chart of legal entities. We see, not a "parent bank" surrounded by a ring of subsidiaries, but four complementary line organizations, each with clear market, product, and geographic mandates. All four will be fully autonomous for the important decisions in their specific markets. But they will operate as equal partners, taking advantage of every possible synergy.

We see a *nation-wide, full-service* bank in Canada — the Bank of Montreal Canadians have known for 176 years...

A strong *regional* bank in the American Midwest, operating through the prosperous eight-state region that is our target market for individual, small business, and middle-market corporate banking services, and with a national franchise for trust and cash management services...

A continental *corporate and institutional* bank, offering a full range of credit,

treasury and operating services to major customers across North America and in their dealings around the world...

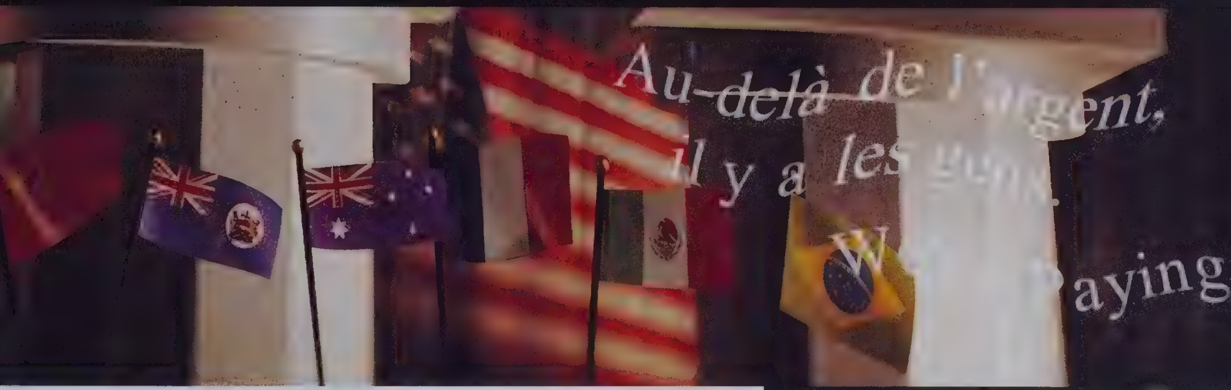
And a continental *investment* bank, offering creative government and corporate finance solutions, and value-added advice to institutional equity, fixed income, and individual clients.

Linking the four pillars will be a common base of support services and infrastructure. We will promote cohesion and efficiency by integrating these utilities, whenever that enhances effective customer service. And we will increasingly use these productivity gains to shift resources from the back offices to the front line, where they can contribute directly to customer satisfaction and convenience.

Working with our people on both sides of the border, the leadership of the four pillars and myself will be responsible for carrying out the strategy and policies developed for the whole Bank. The leadership team will oversee the building and operation of the network of line companies to agreed standards of

"We see four complementary line organizations...they will operate as equal partners, taking advantage of every possible synergy."

F. ANTHONY COMPER
PRESIDENT AND CHIEF OPERATING OFFICER



performance. It will be our job to see that each organization has the resources, technology and infrastructure needed to do *its* job. And we'll make sure that each organization makes maximum use of the resources and the possibilities for mutual learning that are common to the whole Bank of Montreal family.

The theme of this Annual Report is being first — and the structure and operating philosophy we see emerging for the Bank will be real firsts, for all of North America. Once again, Bank of Montreal is breaking new ground. And it's a privilege to be responsible for transforming the promise of *Vision 2002* into a dynamic and profitable reality.

BUILDING A RELATIONSHIP BANK

In 1993, Personal and Commercial Financial Services made important progress in reshaping a conventional, product-oriented bank into a *relationship* bank. We fostered long-standing relationships by continuing to move closer to our customers. And we created new relationships by recognizing that a bank today must *pay attention* to the constantly changing needs of different communities.

- We know that independent business is a major driver of economic growth and job creation. We offered a lending rate 1% below prime, and publicly earmarked $1 billion for the needs of small business.
- For homeowners we offered more variable rate options than any other bank, as well as a *protected* variable rate mortgage to shield customers from future rate increases.
- For younger Canadians we introduced our new FirstHome™ MasterCard®† card,

"We created new relationships by recognizing that a bank today must pay attention to the constantly changing needs of different communities."

RONALD G. ROGERS
SENIOR EXECUTIVE VICE-PRESIDENT
PERSONAL AND COMMERCIAL FINANCIAL SERVICES

that helps them save for that vital down payment on the first home they own. And we created an imaginative, practical banking program for Canada's students.

- We have moved steadily to create sustainable relationships with our Aboriginal customers.
- And recognizing the increasing importance of the Asian community for the Canadian economy, we have responded creatively to its financial services requirements in both North America and Asia.

We are laying the groundwork for *future* relationships, giving Canadian businesses the competitive advantages of state-of-the-art infrastructure and investment in training and technology. By the end of the century our developing telephone banking capacity will

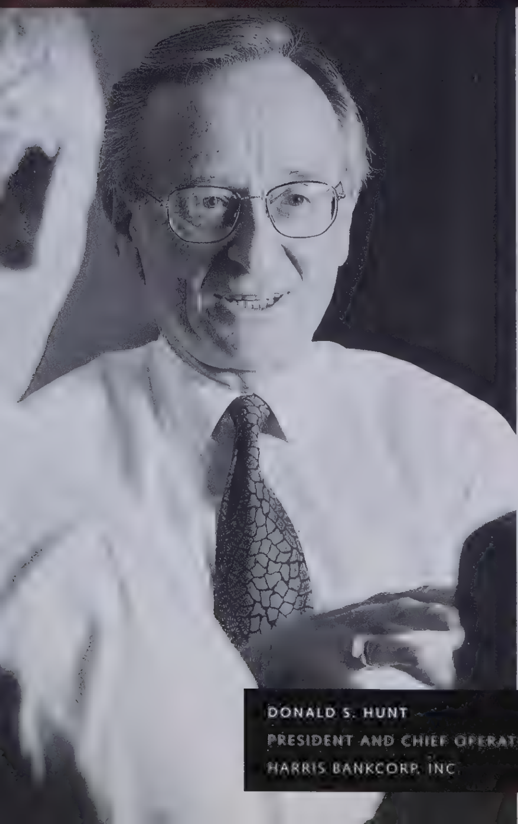
be as familiar as our more than 1,500 Instabanks and our 23,000 point-of-sale terminals are today. Our association with Harris Trust & Savings Bank allows us to offer seamless cross-border operating services to our commercial customers doing business in the United States. Our investment in the Bank's human capital has grown strongly for several years. It will take a long stride forward in 1994, when our new Institute for Learning will begin to enhance the skills with which our people in Personal and Commercial Financial Services deliver consistently superior service. And we are exploring new initiatives for financing emerging technological companies, both from our own resources and in partnership with provincial governments through our participation in the Ontario Investment Fund and British Columbia's Ventures West.

Our customers, old and new, have rewarded our commitment to building an enduring relationship with them by increasing our market shares significantly, even in these difficult economic times. And that makes us confident that Personal and Commercial Financial Services in Canada will continue to be a strong base for the Bank's North American strategy.

AGGRESSIVE EXPANSION IN THE AMERICAN MIDWEST

The goal of the Bank's North American strategy in the United States is to triple our market share over the coming decade. We will do that by being known as an organization that consistently exceeds customers' expectations. And the driver of our growth will be Harris Bankcorp.

That target is a true challenge. We'll meet it by aggressively expanding businesses where Harris is already strong. That includes corporate businesses like mid-market corporate banking and cash management services. It also covers high-value-added financial services for individuals, like private banking, bank cards and personal asset management. And it very definitely includes corporate and institutional trust, where with U.S.$164 billion under administration Harris is one of the twenty leading trust companies in the United States. We'll also meet the challenge of growth by investing heavily in two distribution-based businesses — retail banking and small-business banking in the Greater Chicago

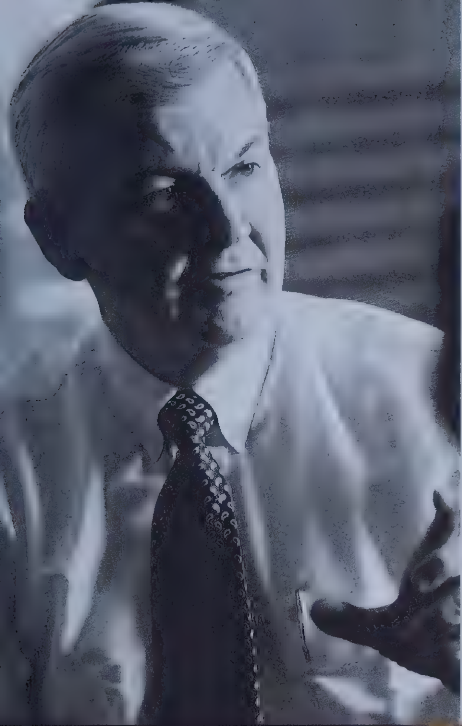


DONALD S. HUNT
PRESIDENT AND CHIEF OPERATING OFFICER
HARRIS BANKCORP, INC.

area and the Midwest, where we will aggressively expand our distribution network and our customer base.

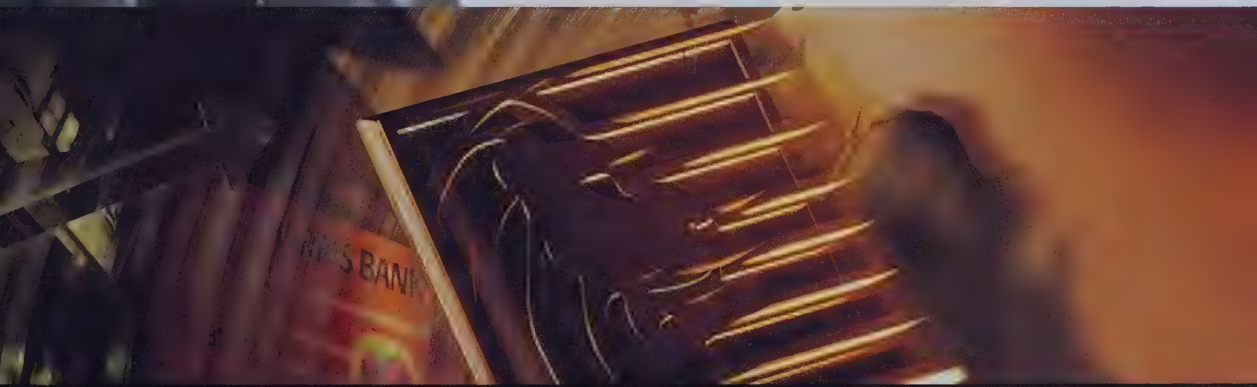
We bring three strengths to reaching this ambitious growth target. First and foremost, we have Harris' strengths, including its excellence in its traditional businesses, its knowledge of its Midwestern base, its position as a leading American trust company.

And we have the resources of the whole Bank of Montreal family, with immense possibilities for allied action among its members. Corporate and Institutional Financial Services offers financial muscle and international reach for corporate financings. Nesbitt Thomson brings a suite of investment banking services for our mid-market customers. Personal and Commercial Financial Services has unsurpassed experience in running a continent-wide retail bank. Their partnership with Harris makes a winning team for companies



and individuals doing business either in the United States or all across North America.

Third, Harris' Total Customer Focus philosophy gives us a decisive edge in the marketplace. It harnesses the power of our entire organization through a corporate-wide commitment to understanding our customers' needs and consistently exceeding their expectations by delivering superb service through teamwork. And that commitment reflects our traditional recognition that customer satisfaction and employee satisfaction are *inextricably* linked. This principle has kept Harris in business under the same proud name for 111 years. And the values behind that principle give us confidence that we will reach our ambitious growth target in the United States.



"We have the resources of the whole Bank of Montreal family, with immense possibilities for allied action among its members."

ALAN G. MCNALLY
VICE-CHAIRMAN AND CHIEF EXECUTIVE OFFICER
HARRIS BANKCORP, INC.

OUR PEOPLE ARE OUR COMPETITIVE ADVANTAGE

As Bank of Montreal progresses into the 1990s, Corporate and Institutional Financial Services is proving itself ready to compete in North American and world-wide markets as an integral part of the Bank of Montreal family. And while we are investing strongly in developing superior products and market position, our most significant investments continue to be in our people, for our customers.

Our corporate banking professionals, the Managing Directors and their teams of Directors and Associates, are intensively trained and *accredited* in client coverage, financial engineering and credit risk assessment. Our bankers differentiate themselves by selling *solutions* to clients, not just products — solutions that enhance our clients' business. In partnership with their colleagues in the other three pillars, these women and men pull together "Deal Teams" which

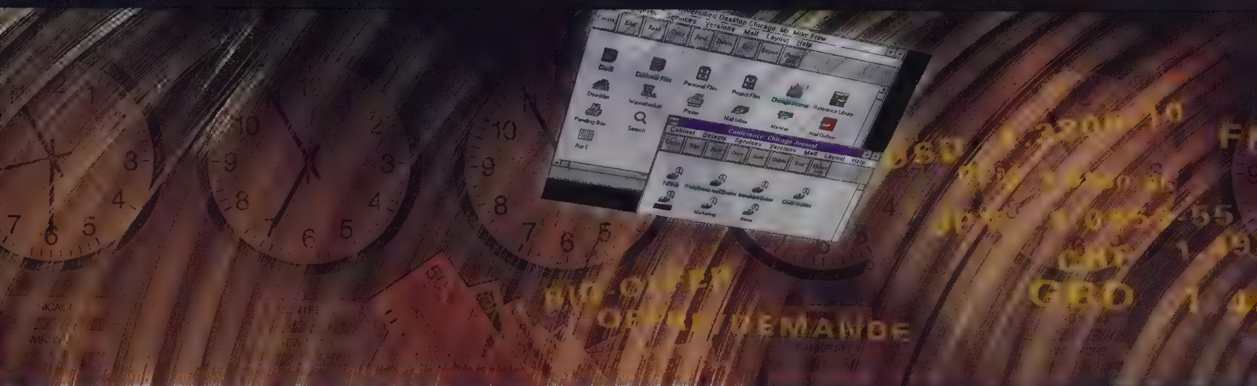
develop comprehensive plans that reflect each key client's financial philosophy and business objectives.

Our commitment to our people is given substance with leading-edge technology tools. Our new Relationship Manager Desktop computer platform, for example, the first of its kind in a North American bank, is years ahead of its time. It allows our product and relationship management teams to analyze and synthesize enormous amounts of information electronically, from both internal and external sources. And it brings that information to bear in the development of solutions for our customers.

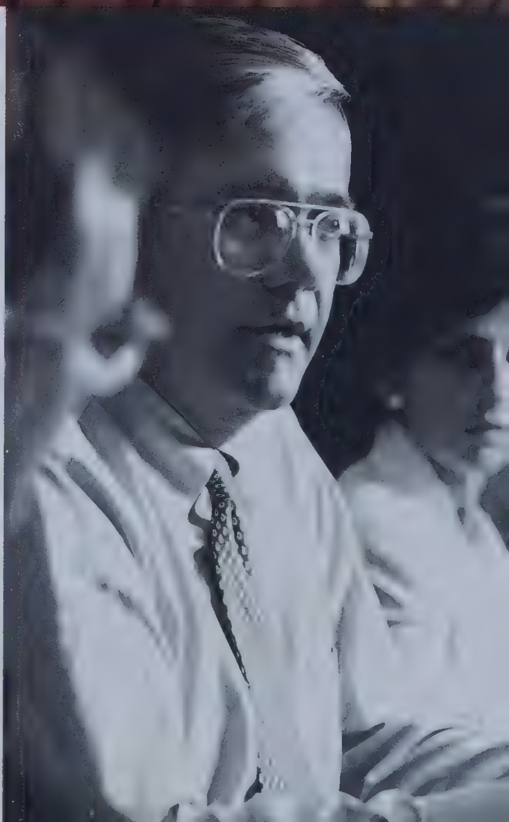
In effect, we have re-engineered the corporate banking business, and customer service research shows that our teams are consistently recognized for superior professional competence. Our Treasury and Operating services are first-tier in the markets where we choose to compete. For example, our Electronic Data Interchange (EDI) service, North American Automated Lockbox and DirectLine® cash management products are unequalled by any competitor on either side of the 49th parallel.

"Our bankers differentiate themselves by selling solutions to clients, not just products – solutions that enhance our clients' business."

JEFFREY S. CHISHOLM
VICE-CHAIRMAN
CORPORATE AND INSTITUTIONAL FINANCIAL SERVICES



Corporate and Institutional Banking is also seen as a skilled and significant player in the financial markets. We have special strengths in: money market, foreign exchange and risk management; trade finance, project finance and tax-advantaged, cross-border financings for our North American clients; and financial services for specialized industries such as telecommunications, transportation, energy, mining, and financial institutions. The new focus brought by *Vision 2002* provides opportunities to build on our experience in Canada, the U.S. and overseas, and positions us for exciting opportunities in growth areas such as Mexico and Asia. This favourable market position owes much to our superior products and our synergy with the other pillars of the strategy. But most of all, it reflects the continuing excellence of our people.

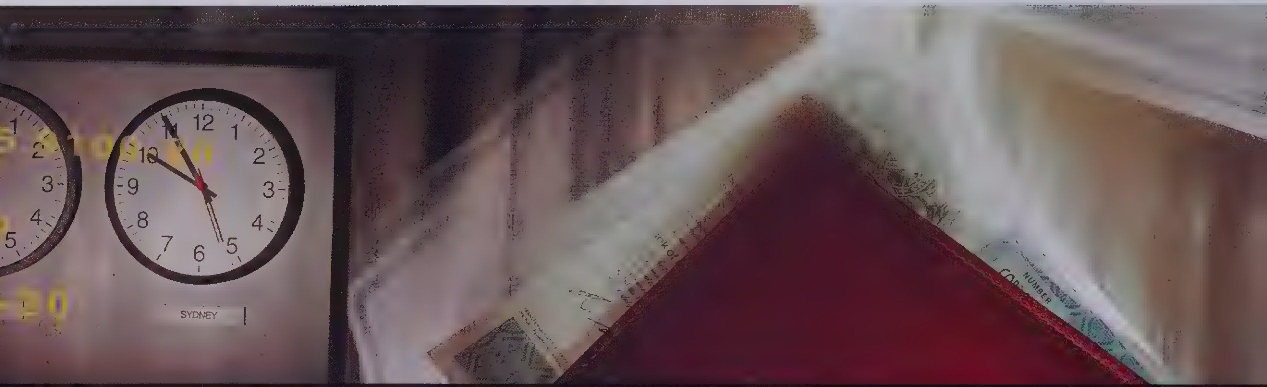


OUTLOOK FOR GROWTH IN INVESTMENT BANKING

Investment Banking is well-prepared and strongly positioned for the role we will play in the Bank's *Vision 2002*.

We have the size and reach to play our role. In the money management and trust area, total assets under management or administration in the whole Bank of Montreal/Harris group exceed $300 billion, making us one of the largest trust operations in North America. In our offices in the United States, Europe, Hong Kong and Tokyo as well as across Canada, there are 1,600 of us on the investment banking team. And our core company, Nesbitt Thomson, is widely recognized by the industry and the investing public for the distinctive capabilities that allow us to deliver value-added expertise across North America:

- corporate finance solutions tailor-made for customers' requirements;
- innovative investment products;

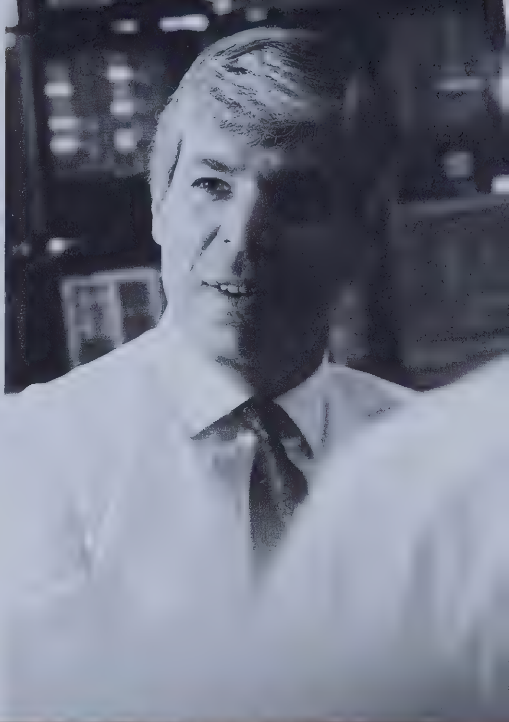


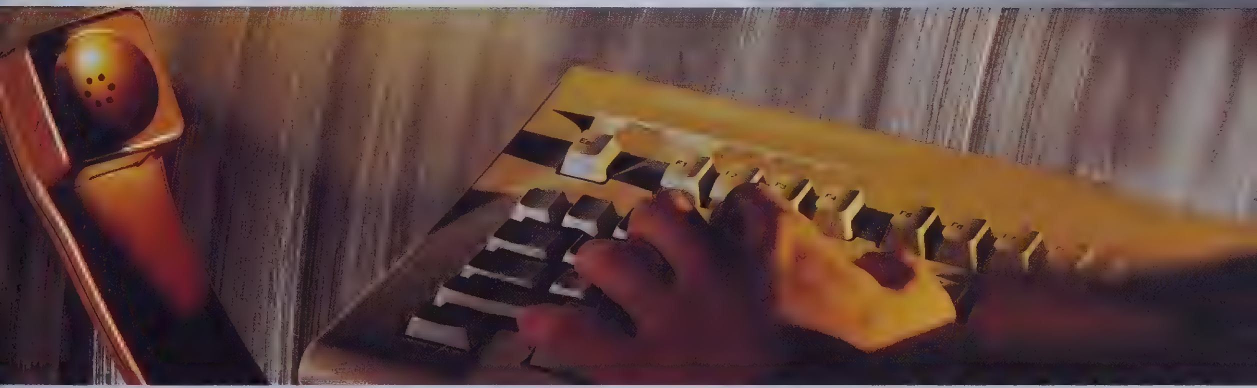
"Maintaining a high standard of service in these growth areas today requires substantial investments of time and money — and in Investment Banking we have committed both."

BRIAN J. STECK
VICE-CHAIRMAN, INVESTMENT BANKING

- customized products such as swaps and equity preferreds, zero-coupon bonds and other innovative debt opportunities for a large and growing list of corporate and government underwriting clients;
- research skills repeatedly ranked by independent surveys as among the best in the Canadian investment industry;
- close co-operation with Corporate and Institutional Financial Services in the evolving area of securitization;
- personal investment management on a fixed-fee or commission basis.

Our membership in the Bank of Montreal family gives us unparalleled access to new North American markets: the 4.5 million customers and nation-wide branch network in Canada; a significant customer and





community banking network in the Midwest through Harris Bankcorp; and a long list of corporate and institutional customers across North America.

Maintaining a high standard of service in these growth areas today requires substantial investments of time and money — and in Investment Banking we have committed both. In the retail sector, for example, all Nesbitt Thomson's new investment advisors are required to complete a rigorous 18-month training program that is the most intense of its kind in the industry. We see this investment in our people as essential to achieving the goal defined in our new strategic blueprint, *The Leadership Journey:* to have Nesbitt Thomson recognized for the best customer service in the Canadian investment banking industry.

Future growth prospects for the industry are excellent. And in Investment Banking we are particularly excited by the opportunities for growth that *Vision 2002* will bring us in the Bank of Montreal family of companies.

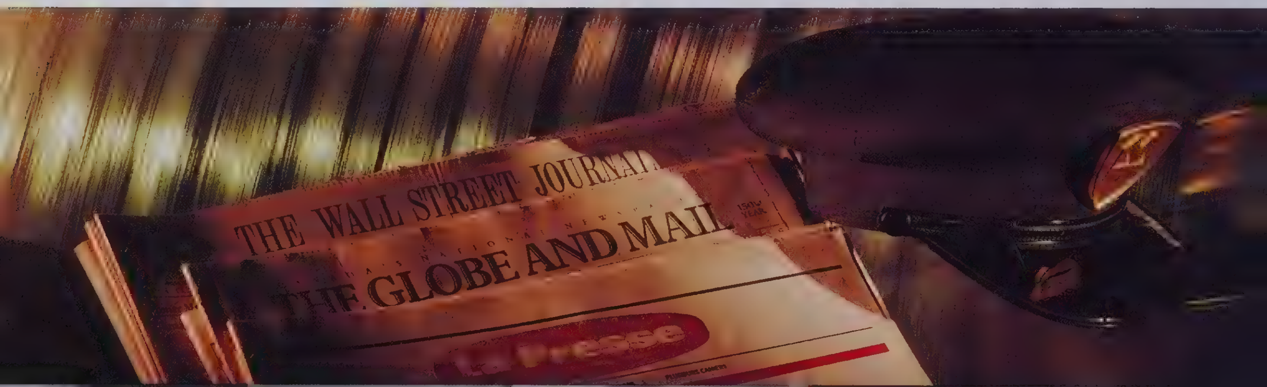
INTEGRATING TOP-TIER SERVICES ACROSS THE BANK

Within the Bank's *Vision 2002*, the mission of Corporate Services is the seamless integration of our support services to achieve maximum effectiveness with the line organizations, together with falling unit costs and consistently superior service quality.

This is a many-faceted role to which all the common services are making important contributions. In this report we will concentrate on two of them: human resources, including education and training, and operations. In both, 1993 saw significant progress toward the Bank's specific strategic goals and the integration of the support services for all four pillars — progress we expect to continue and accelerate in 1994.

EDUCATION AND TRAINING

We strongly believe that having the highest quality employees is the key



KEITH DORRICOTT
VICE-CHAIRMAN
CORPORATE SERVICES

LLOYD DARLINGTON
EXECUTIVE VICE-PRESIDENT
OPERATIONS

LLOYD ATKINSON
EXECUTIVE VICE-PRESIDENT
AND CHIEF ECONOMIST

JIM RUSH
SENIOR VICE-PRESIDENT
AND DIRECTOR,
INSTITUTE FOR LEARNING

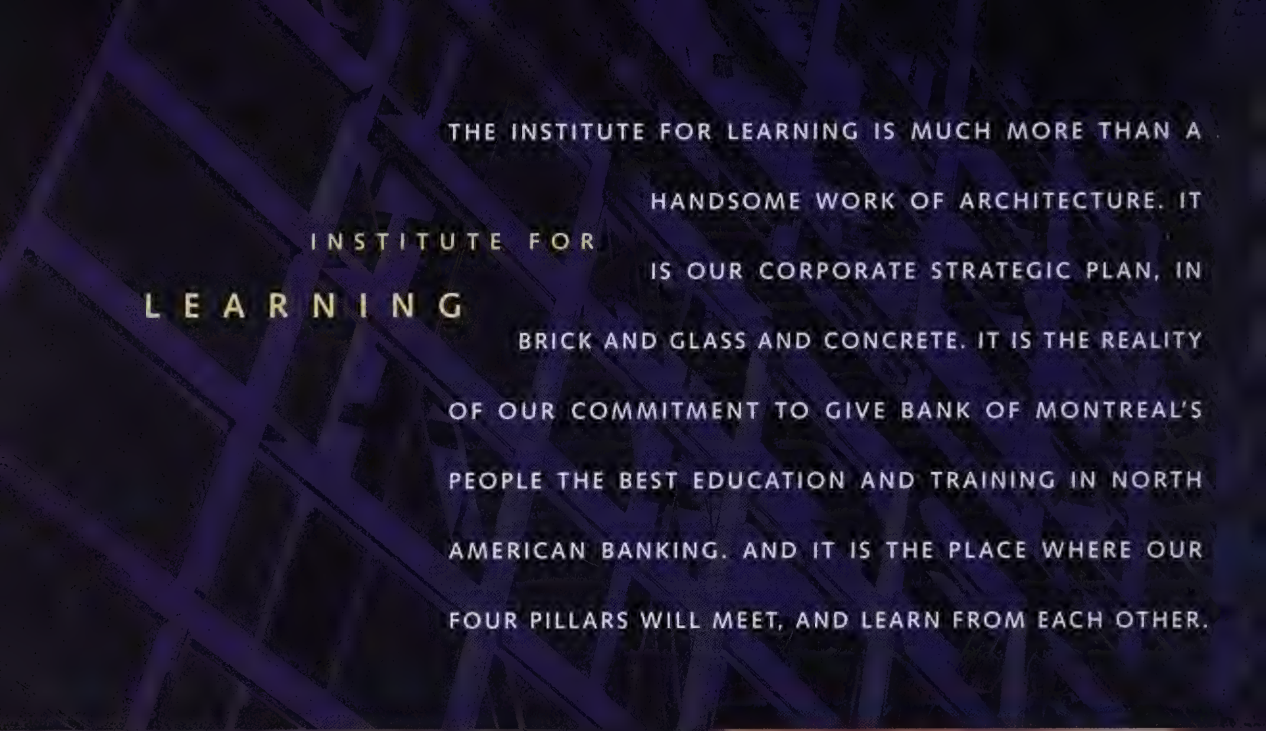
HARRIET STAIRS
SENIOR VICE-PRESIDENT
HUMAN RESOURCES

to meeting the Bank's customer service goals and realizing the full potential of *Vision 2002*. In 1993 we made considerable progress in implementing human resource policies which, by furthering workforce diversity and a flexible work environment, will help make the Bank the employer of choice everywhere it operates. We also brought our new Institute for Learning in Scarborough, Ontario, close to completion. The Bank has been increasingly recognized for its commitment to high and rising levels of employee training, and this perception will be powerfully reinforced when the Institute welcomes its first students in January 1994. The Institute will be the first purpose-built institution of its kind in Canada and one of the few in North America. Offering state-of-the-art facilities and a wide range of courses, it will be central to developing maximum skills and a common outlook in the workforces of the four pillars and the corporate services departments.

OPERATIONS

Through their responsibility for planning, developing, and engineering the technological infrastructure of the Bank, as well as by operating essential after-sales processing services, the more than 5,000 employees in Operations Group are playing a critical role in the creation of a high-quality, cost-efficient services base for *Vision 2002.* Continuing focus on back-office consolidation, together with process re-engineering, resulted in 1993 expenses which were significantly below those in the preceding year. This continued a trend under which total savings since 1988, adjusted for inflation, amount to almost $200 million — savings which have made a major contribution to the marked betterment in the Bank's overall productivity, while significantly improving service quality and furthering the integration of the operating entities.

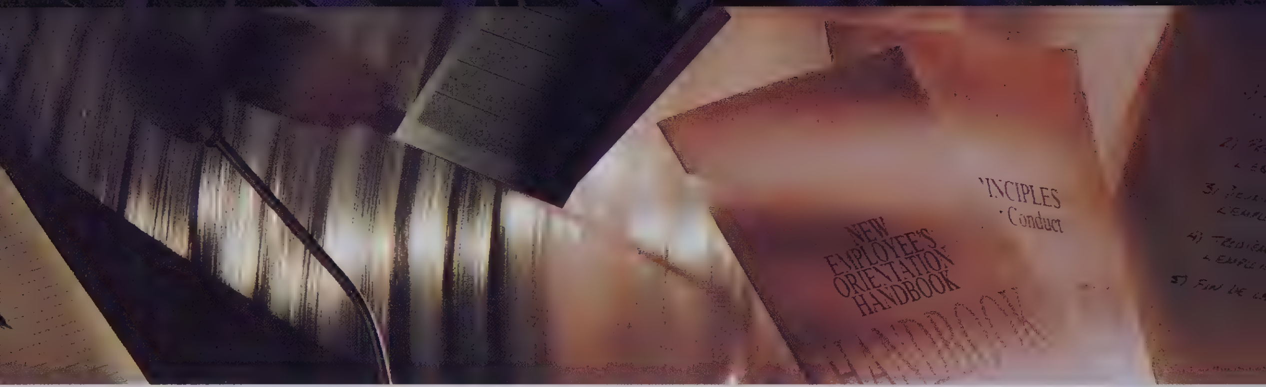
Bank of Montreal has shown strong leadership in technological innovation for more than twenty years. To keep our lead, Operations



INSTITUTE FOR

LEARNING

THE INSTITUTE FOR LEARNING IS MUCH MORE THAN A HANDSOME WORK OF ARCHITECTURE. IT IS OUR CORPORATE STRATEGIC PLAN, IN BRICK AND GLASS AND CONCRETE. IT IS THE REALITY OF OUR COMMITMENT TO GIVE BANK OF MONTREAL'S PEOPLE THE BEST EDUCATION AND TRAINING IN NORTH AMERICAN BANKING. AND IT IS THE PLACE WHERE OUR FOUR PILLARS WILL MEET, AND LEARN FROM EACH OTHER.



Group has launched a review of our technology planning processes, identifying opportunities to make them more efficient and thereby further improve their quality, cost-effectiveness and responsiveness to the needs of the line organizations. This review incorporates a best-of-breed external review, as well as an external efficiency benchmark exercise. It will be completed in 1994.

Corporate Services' role can be seen as a knitting together of the capabilities of the four pillars' support services to achieve a decisive critical mass, while allowing best practices to spread through the whole Bank no matter where they originate. In 1993 we made major gains in this mission of integration, and moved the Bank closer to being the low-cost, high-quality supplier of financial services in the North American market.

MANAGEMENT REVIEW

THIS SECTION INTRODUCES THE FINANCIAL COMPONENT OF THE ANNUAL REPORT. THE PRESIDENT'S REPORT SUMMARIZES THE BANK'S ACHIEVEMENTS DURING 1993 AND CONVEYS OUR PERSPECTIVE ON THE FUTURE. THE MANAGEMENT ANALYSIS OF OPERATIONS AND FINANCIAL STATEMENTS FOLLOW. ¶ THIS YEAR OUR FINANCIAL GOALS AND MEASURES ARE PRESENTED IN A SUPPLEMENTARY DOCUMENT.

For the Year Ended October 31

	1993	1992	Change
Earnings Information ($ in millions)			
Net income	**$ 709**	$ 640	10.9%
Total revenues (TEB)*	**4,861**	4,442	9.4
Provision for credit losses	**675**	550	22.7
Non-interest expense	**2,916**	2,765	5.5
Per Common Share ($)			
Net income ▪ basic	**$ 2.59**	$ 2.38	$ 0.21
▪ fully diluted	**2.55**	2.36	0.19
Dividends	**1.12**	1.06	0.06
Financial Ratios (%)			
Return on average common equity	**14.1**	14.1	–
Return on average total assets	**0.63**	0.61	0.02

As at October 31

	1993	1992	Change
Financial Position ($ in millions)			
Assets	**$116,869**	$109,035	7.2%
Loans	**74,028**	68,251	8.5
Deposits	**94,311**	90,747	3.9
Capital funds	**8,049**	6,830	17.8
Common equity	**4,834**	4,332	11.6
Risk-Based Capital Ratios (%)			
Tier 1	**7.4**	6.8	0.6
Total	**10.3**	8.9	1.4
Other Information			
Number of common shares outstanding	**249,093,914**	244,819,338	1.7%
Number of bank branches	**1,214**	1,231	(1.4)
Number of automated banking machines and cash dispensers	**1,538**	1,293	18.9
Number of employees	**32,067**	32,126	(0.2)

*Net interest income and other income reported on a taxable equivalent basis (TEB).

PRESIDENT'S REPORT

IN 1993 WE MADE FURTHER PROGRESS ON OUR STRATEGIC AGENDA, BUILDING ON THE MOMENTUM OF THE PREVIOUS THREE YEARS. SOLID PROOF OF OUR SUCCESS IS EVIDENT IN THE INCREASE IN THE PRICE OF OUR COMMON SHARES AND IN OUR MARKET SHARE STATISTICS. IT IS ALSO APPARENT IN THE SURVEYS WE COMMISSION OF THE WAY OUR CUSTOMERS AND EMPLOYEES RATE OUR PERFORMANCE – SURVEYS THAT ARE PART OF OUR COMMITMENT TO MEASURING THE EFFECTIVENESS OF EVERYTHING WE DO. MEASUREMENT ENABLES US TO DETECT CHANGES IN OUR OPERATING ENVIRONMENT IN A TIMELY FASHION AND TO ENSURE THAT OUR STRATEGIES ARE GIVING RESULTS. AND IT IS THE KEY TO MAKING OUR MANAGEMENT PHILOSOPHY OF CONTINUOUS IMPROVEMENT A PRODUCTIVE REALITY.

In 1993, our measurements showed real and growing benefits for our three major stakeholders — our shareholders, our customers and our employees. For our shareholders, the return on their investment continued to be strong. Customers for their part benefitted from a growing array of innovative products, as well as from flexible pricing designed to help them cope with demanding economic times. And our commitment to investing in our employees took physical shape in our unique education and training centre, the Bank of Montreal Institute for Learning, now scheduled to open early in the new year.

Our measurements also showed that while we have come a long way in the last four years, we still have much to do. In 1994 we shall continue to build on the gains we have made in the Canadian marketplace, while expanding and broadening our operations in the United States, Canada's major economic partner. As we move steadily toward our goal of becoming a full-service North American financial institution, our commitment on both sides of the border remains the same: to be the high-quality, low-cost supplier and the employer of choice within the financial services industry.

INCREASED SHAREHOLDER VALUE

Our commitment to our shareholders is to see their investment steadily increase in value and achieve an annual return competitive with shareholders of other banks. We are fulfilling that commitment.

In 1993, the Bank's market capitalization for common shares increased by over $900 million to $6.7 billion. Dividends were raised, resulting in a yield of 4.7%, while the share price rose 14.0% for a total return on investment of 18.7%. This brought the return on investment during the first four years of this decade to over 80%, considerably higher than the average of the major Canadian banks and the general market performance as measured by the TSE 300 Index.

This appreciation in market value reflects the consistent strength of our financial performance and our balance sheet. Net income grew almost 11% in 1993 to $709 million, generating return on common shareholders' equity of 14.1%. This represented the fourth consecutive year of growth in earnings, with returns on equity in the 14% to 15% range. The main contributors to our strong performance continued to be revenue growth from higher business volumes, along with markedly improved productivity.

THE MAIN CONTRIBUTORS TO OUR STRONG PERFORMANCE CONTINUED TO BE REVENUE GROWTH FROM HIGHER BUSINESS VOLUMES, ALONG WITH MARKEDLY IMPROVED PRODUCTIVITY.

Early in 1993, we met the productivity goal we set four years ago by achieving parity with the other major Canadian banks. Measured by the ratio of cost to revenue, our productivity improved from 62.2% to 60.0%, our best ratio since 1983. We were able to make significant investments in our future while holding growth in expenses to 5.5%, despite higher business volumes which produced a 9.4% growth in revenues. Growth was particularly strong in the lower-risk areas of residential mortgages and loans to small to mid-sized businesses. Operating services and other fee-based transactions continued to increase in both volume and share of total revenue. In 1993, they grew by 15.8% and represented close to one-third of the Bank's revenues. In summary, while we are pleased with our record in improving productivity to date, achieving our longer-term goal of consistent top-tier performance remains a key priority.

From a prudential point of view, we strengthened the equity or Tier 1 component of the capital ratio to 7.4%, well in excess of the 4% Canadian regulatory requirement. This brought the total capital ratio to 10.3% of risk-weighted assets. The Bank also maintained a strong base of liquidity. Our loan portfolio continued to remain relatively strong, as it has through the past four years of weak economic activity. The portfolio has a substantial proportion of loans to the comparatively low-risk individual market, and the balance is well-diversified both by industry sector and by geography. In 1993, the proportion of problem loans in the portfolio stabilized and the level of specific provisions for losses declined by 9% from 1992. The provision for credit losses was 0.94% of average loans for 1993. Widespread weakness in the real estate sector was the major factor affecting the level of provision, as the rest of the portfolio performed well.

IMPROVED CUSTOMER SATISFACTION

Our commitment to our customers is to provide dependably good value and a distinctive quality of service, while consistently meeting or exceeding their expectations. We strive to achieve these goals by listening to our customers, paying attention to

their concerns and responding with innovative products and distinctive services. Much of the future success of the Bank will depend on our ongoing ability to build and maintain customer satisfaction in these ways. Our results in 1993 suggest that we are continuing to make progress toward fulfilling our commitment.

For example, our efforts have resulted in excellent growth in volumes and market shares — solid evidence of increasing customer satisfaction. We were especially encouraged that business volumes in the personal and small to mid-sized commercial markets that are our priority continued to grow during 1993 — showing clearly that "paying attention" to customer needs is working.

The market, however, is not the only evidence we use. We measure customer satisfaction constantly, both to evaluate our past performance and to set our standards for the future. Our surveys indicate that customers appreciate the stream of innovative products and prices we have introduced — but they also want further improvement in processes and staff. They are telling us we need to be still more responsive — by reducing waiting time at the counter and speeding up processing of loan applications, by making our services more accessible, and by developing more creative approaches to financing problems.

WE MEASURE CUSTOMER SATISFACTION CONSTANTLY, BOTH TO EVALUATE OUR PAST PERFORMANCE AND TO SET OUR STANDARDS FOR THE FUTURE.

We are paying attention to those wants and have dedicated nearly half of our total 1993 investment expenditures to customer satisfaction improvements, including investments in infrastructure and in enhancing the convenience and appearance of our facilities. But while improvements in process and technology can increase the number of services we can offer, their most important benefit is to expand the time our employees have available to work with customers. There is no substitute for the judgement, understanding and empathy that well-trained and highly motivated staff bring to ensuring that the needs of every customer are fully met. It follows that our most important investment in customer satisfaction is our investment in workforce education and training.

STRENGTHENING OUR WORKFORCE

Our overall strategy, adopted in 1990, established an objective of having a superior workforce — more committed, competent and cost-effective than our competition, and developed to its full potential. Our people are the source of the one truly sustainable competitive advantage — innovation, which is essential to achieving superior customer satisfaction and in turn generating superior performance for our shareholders.

Many trends in the economy and society affect the Bank's employees. Sharpened competition is increasing the need for high-quality people, while demographic and other factors are decreasing the supply. In order to earn the loyalty and commitment from their employees that will lead to higher innovation and productivity, employers increasingly understand they must help their people meet their commitments outside the workplace and achieve a balanced style of life.

The Bank is responding with programmes and policies which touch employees in all stages of their careers.

First, we are committed to attracting, developing and retaining the best people available, from the widest possible pool of talent. They will show the capacity and motivation to learn, and the potential to identify with the Bank's goals and values.

Second comes the opportunity to learn and grow both on and off the job. Our investment in employee development has already increased the average training days per employee per year to three, more than halfway to our goal of five days per year by the year 1997. A suite of structured training programs has been put in place in the banking groups which equip new employees with the knowledge and skills required for core banking jobs and enable our current employees to update their professional capacities. And the central driving force in our program is our new Institute for Learning, which has a threefold mandate: to develop our comprehensive training curricula; to deliver a full range of subjects from fundamental banking skills to management-level courses; and through leadership development, to disseminate our corporate goals and values through the whole Bank of Montreal family.

Emphasis is also being placed on development of skills on the job by broadening responsibilities and job content, and encouraging moves between different areas in order to allow individuals to diversify their skills and experiences.

Our employees' commitment to the Bank is a reflection of fair, flexible and equitable employment policies and practices, and a work environment that is receptive to employees of all backgrounds. We are currently implementing the recommendations from our task force reviews on women, aboriginals, and people with disabilities in the workplace. And we will soon be completing the last in this series of reviews — an assessment of equality for visible minorities to determine whether any special factors not dealt with in the three previous reviews uniquely affect the advancement opportunities for these employees.

What measurable progress have we made to date? Based on our strategic employee measures for commitment, competence and cost-effectiveness, the Bank's overall rating in comparison with the other major banks improved from an unacceptable level in 1991 to a superior rating as of second quarter 1993.

CONCLUSION

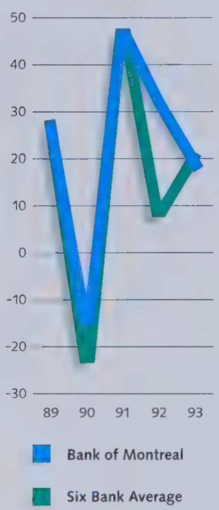
Our measurement of our progress is as objective and impartial as we can make it. But there is also great value in learning how you are doing at firsthand, from those directly affected by your plans, practices and not least, your mistakes. During the year, I visited many of our branches across Canada to hear for myself what our employees and customers think about how we have been trying to respond to their needs. The resounding message was that, although there will always be more to be done, our strategy is doing what it is supposed to do in increasing customer satisfaction and employee commitment. And that translates directly into strong returns for shareholders.

F. ANTHONY COMPER
PRESIDENT AND
CHIEF OPERATING OFFICER

MANAGEMENT ANALYSIS OF OPERATIONS

THIS ANALYSIS OF OPERATIONS PROVIDES MANAGEMENT'S PERSPECTIVE OF THE FINANCIAL CONDITION OF BANK OF MONTREAL AND ITS EARNINGS FOR THE YEAR ENDED OCTOBER 31, 1993. THE ANALYSIS DISCUSSES THE BANK'S OBJECTIVES, PERFORMANCE AND STRATEGIES IN THE CONTEXT OF SEVEN FINANCIAL INDICATORS USED BY THE BANK TO MONITOR OVERALL FINANCIAL PERFORMANCE AND CONDITION. A COMPARISON OF THE BANK'S PERFORMANCE WITH THAT OF OTHER MAJOR BANKS IS PROVIDED IN THE FINANCIAL GOALS AND MEASURES SUPPLEMENT TO THIS ANNUAL REPORT.

Chart 1
Annual Return on Investment
For the Year Ended October 31 (%)



The return on an investment in shares consists of the total of dividends received and the capital gain or loss on the shares over a specific period of time. Our goal is to place continuously first or second among the six major Canadian banks for return on common shareholders' investment. Bank of Montreal common shareholders have enjoyed an average annual return of 20.8% since the beginning of the decade. This return was the second highest among the six major Canadian banks for this period. In 1993 the return was 18.7%. Chart 1 compares the Bank's performance with the average of the six major Canadian banks for the period 1989 to 1993.

The capital gain component of return on investment is the change in Bank of Montreal's share price, which rose 14.0% during fiscal 1993. This compares to an average of 15.5% for the six major banks. The total market value of Bank of Montreal's common shares (referred to as Market Capitalization) increased by over $900 million during fiscal 1993 to $6.7 billion, bringing the total increase since the beginning of fiscal 1990 to nearly $3 billion, an increase of 78%.

This higher valuation reflects the Bank's financial performance as well as a two-for-one stock distribution and a dividend increase during 1993 which improved the marketability of our common shares. There has been consistent growth in the price-to-earnings and market-to-book ratios since 1990, as shown in Table 1.

The common dividend per share was increased by six cents to $1.12 annually, producing a dividend yield of 4.7% based on the common share price at fiscal year-end 1992.

Table 1
Return on Common Shareholders' Investment

For the Year Ended October 31	1989	1990	1991	1992	**1993**	Total 1990–1993
Opening price – start of fiscal year*	$14.25	$17.00	$13.50	$18.69	**$23.56**	
Closing price – end of fiscal year*	17.00	13.50	18.69	23.56	**26.88**	
Capital gain (loss)	$ 2.75	$ (3.50)	$ 5.19	$ 4.87	**$ 3.32**	$9.88
Return on Investment (% of opening price)						
Capital gain (loss)	19.3%	(20.6)%	38.4%	26.1%	**14.0%**	14.5%**
Dividend yield	7.4	6.2	7.9	5.7	**4.7**	6.3**
Total	26.7%	(14.4)%	46.3%	31.8%	**18.7%**	20.8%**
Total Market Value of Common Shares ($ in billions)	3.8	3.1	4.5	5.8	**6.7**	
Price-to-Earnings Ratio	NM	6.4	8.1	9.9	**10.4**	
Market-to-Book Ratio	1.22	0.90	1.16	1.33	**1.39**	

NM – Not meaningful.
*Restated to reflect the effects of the two-for-one stock distribution completed in March 1993.
**Average annual.

PROFITABILITY –

14.1% RETURN ON COMMON SHAREHOLDERS' EQUITY

Return on common shareholders' equity is the Bank's principal measure of profitability. This measure is defined as the percentage of net income less preferred dividends to average common share capital and retained earnings, that is, the average book value of the common shareholders' equity.

The Bank's objective is to produce consistently a return on common shareholders' equity that, at a minimum, equals the rate of return available for "risk-free" investment plus 5% for the risk of equity investing. The Bank also intends that this return will be at least competitive with other returns in the financial services sector.

Table 2
Financial Performance
For the Year Ended October 31

	1989	1990	1991	1992	**1993**
Return on Equity (%)	(2.5)	14.6	15.0	14.1	**14.1**
Net Income (Loss) ($ in millions)	(39)	522	595	640	**709**
Average Common Shareholders' Equity ($ in millions)	3,434	3,259	3,623	4,072	**4,564**
Earnings per Share ($)					
– Fully Diluted	(0.39)	2.10	2.31	2.36	**2.55**

STRONG RETURN ON EQUITY DESPITE CONTINUING WEAK ECONOMIC CONDITIONS.

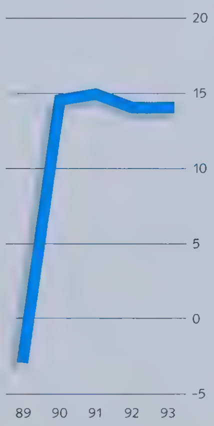
STRONG RETURNS ON EQUITY CONTINUE

Bank of Montreal's return on equity in 1993 was 14.1% — a strong performance. Fiscal 1993 represented the fourth consecutive year of returns in the range of 14.0% to 15.0%, achieved despite continuing weak economic conditions and a historically low level of inflation.

Our strategic plan for achieving a superior return on equity is based on the fundamental value of serving the customer well. Our main priorities are:

- growing in the Canadian personal and commercial market;
- increasing profitability from the large corporate and institutional market;
- expanding in the United States;
- providing a comprehensive range of investment banking services;
- improving productivity to provide high-quality/low-cost service;
- maintaining high asset quality.

Chart 2
Return on Equity
For the Year Ended October 31 (%)



GROWING IN THE CANADIAN PERSONAL AND COMMERCIAL MARKET

The Bank's marketing strategy identified growth in this market sector as a key priority. Over the past four years, Personal and Commercial Financial Services has actively developed Community Banking as the marketing and distribution organization to effectively compete in the local marketplace. This initiative restructured our network of some 1,159 branches, supported by 1,538 automated banking machines, into 236 communities with local leadership, authority and decision-making. Many Bank executives have been relocated to communities across Canada which significantly increased the extent of decision-making authority in the communities. Staff were given the training and authority to allow them to be highly responsive to local customer needs. In addition, significant investments have been made to provide our front-line people with the training and technology required to deliver new products as well as improved service. The Bank also continued to develop innovative products and pricing. These improvements in marketing, employee skills and products have resulted in significant volume growth and increased market shares. Further details of this growth are provided in the Earnings Growth section of this report on page 32.

INCREASING PROFITABILITY FROM THE LARGE CORPORATE AND INSTITUTIONAL MARKET

Rates of return from this market sector have been under pressure for many years, particularly for lending, which has been the dominant product line. The Bank's Corporate and Institutional Financial Services group has redesigned its approach to serving this market to improve the overall rate of return. Changes include:

- introducing pricing that is more consistent with the risks involved in lending;
- emphasizing fee-based services and customizing services to provide solutions to meet client needs; and
- implementing new techniques to assess, diversify and monitor credit risk.

Resources have been realigned to meet the particular needs of borrowing and investing customers more effectively. For example, in November 1991, Bank of Montreal combined its lending capacity with the nationwide capabilities in operating and trust services of Harris Bankcorp, Inc. (Harris), its U.S. banking arm. This strengthened our ability to serve U.S. clients in the Fortune 500 class. In September 1993, the foreign exchange operations and expertise of the Bank and Harris were brought under common management. This action, combined with the Bank's operating service capabilities in Canada, now provides a seamless North American service for clients north and south of the border.

These initiatives have contributed to significant loan growth in the United States as well as to the growth in income from fee-based services. The income from these services is discussed in the Earnings Growth section of this report on page 35.

EXPANDING IN THE UNITED STATES

Based in Chicago, Harris is particularly well positioned to take advantage of the steady, well-diversified growth expected in the large economy of Illinois and the seven surrounding states of the Midwest. Harris' nationwide operating and trust services, its established reputation in the United States and its long-standing network of community banks in the Chicago marketplace make it an important competitor in the United States financial services sector. Bank of Montreal's experience in running a distribution system throughout Canada provides strong support for Harris.

The size of the U.S. Midwest economy and these competitive advantages make expansion in the United States a high priority for Bank of Montreal. The opportunity to improve asset quality through greater diversification outside Canada is an added advantage.

Our objective is to increase the proportion of the Bank's United States earnings from its current level of approximately 30% of total earnings to a level approaching 50% over the next ten years. This will be achieved in three ways:

- expansion of the Harris distribution network;
- increased business with large corporate clients by Corporate and Institutional Financial Services; and
- greater investment banking activity in the United States.

Harris' net income increased by 12% in 1993 to U.S.$123.4 million, contributing 22% of Bank of Montreal's total net income.

PROVIDING A COMPREHENSIVE RANGE OF INVESTMENT BANKING SERVICES

Bank of Montreal was the first Canadian bank to acquire an investment dealer with the purchase of The Nesbitt Thomson Corporation Limited (Nesbitt Thomson) in 1987. This action recognized changing customer needs and the growing proportion of customers in the saving and investing cycle of their lives. In January 1993, under the provisions of the new Bank Act, The Trust Company of Bank of Montreal was launched.

In 1993 Nesbitt Thomson increased its earnings by $29.9 million to $49.5 million. At year-end 1993, the trust and custody business of the Bank of Montreal family, including Harris, was one of the larger operations in North America, with $335 billion in assets under administration. Included in this amount is our First Canadian group of mutual funds which is the sixth largest in Canada, with funds under management in excess of $5 billion.

IMPROVING PRODUCTIVITY TO PROVIDE HIGH-QUALITY/LOW-COST SERVICE

When our strategic priorities were established in 1990, Bank of Montreal put a high priority on reducing our costs relative to our revenues. This cost-to-revenue relationship is our primary measure of productivity. Innovations in marketing, combined with improved service by employees everywhere, address the revenue side of the equation. On the cost side, our program of Continuous Improvement resulted in a re-engineering of several processes, a reduction in the number of interfaces required to complete customer transactions, and the continuing application of new and improved technologies to large scale document and data processing. Since 1990, these efforts have reduced significantly the Bank's cost structure while generating higher volumes of business. These results are discussed in the Earnings Growth and Productivity sections on pages 30 and 37 respectively.

MAINTAINING HIGH ASSET QUALITY

The Bank has a reputation for the effectiveness of its prudent and disciplined approach to lending. This approach is reflected in the quality of its loan portfolio, which has been better than the average of the major Canadian banks over the past several years. A thorough discussion of the Bank's approach to managing asset quality is provided starting on page 41.

STRUCTURED TO ACHIEVE PRIORITIES

The Bank is organized into four operating groups with clearly defined market mandates tightly aligned with our main priorities. Details of the assets managed and administered by these groups are provided in Table 3.

Table 3

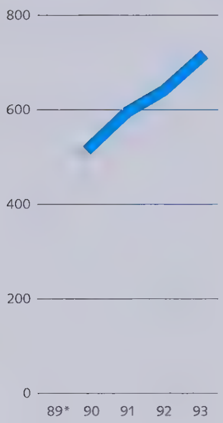
Assets Under Management/Administration

As at October 31, 1993 ($ in millions)	Personal & Commercial– Canada	Corporate & Institutional	Harris	Investment Banking	**Total**
Balance Sheet Assets					
Canada	50,169	15,883	–	8,913	**74,965**
United States	–	8,688	17,628	6,552	**32,868**
Other	–	9,036	–	–	**9,036**
Total Balance Sheet Assets	50,169	33,607	17,628	15,465	**116,869**
Assets Under Administration*	–	–	217,155	117,900	**335,055**

*Assets under administration include mutual funds, trust funds and other assets held in custody.

EARNINGS GROWTH – CONSISTENT AND STRONG

Chart 3
Earnings Growth
For the Year Ended October 31
($ in millions)



*Net loss of $39 million in 1989

HIGHER BUSINESS VOLUMES GENERATED REVENUE GROWTH AND IMPROVED PRODUCTIVITY.

Earnings growth, defined as the percentage change in net income year over year, is a key performance measure for the Bank. Our objective is to have strong, consistent growth in earnings.

Net income for 1993 was $709 million, an increase of $69 million or 10.9% over last year. The increase in net income was due to higher business volumes, which generated revenue growth and improved productivity, but was partially offset by a higher provision for credit losses.

As indicated by Chart 3, the Bank has had strong, consistent growth in net income since 1989, reporting its fourth consecutive year of record earnings in 1993. Our average annual growth in earnings for the period 1990–1993 was 10.8%.

Table 4 shows components of the Bank's total earnings for 1993 compared to 1992. Total revenue is discussed in this section, while non-interest expense is covered in the Productivity section on page 37. The provision for credit losses is reviewed in the Asset Quality section on page 42.

Table 4
Total Earnings
For the Year Ended October 31
($ in millions)

	1992	1993	Increase 1993 over 1992 (%)
Net interest income (TEB)*	3,077	**3,280**	6.6
Other income	1,365	**1,581**	15.8
Total Revenue	4,442	**4,861**	9.4
Provision for credit losses	550	**675**	22.7
Non-interest expense	2,765	**2,916**	5.5
Income before taxes and non-controlling interest in subsidiary	1,127	**1,270**	12.7
Income taxes and non-controlling interest in subsidiary	487	**561**	15.0
Net Income	640	**709**	10.9
Year-Over-Year Growth	7.5%	**10.9%**	

*The taxable equivalent (TEB) adjustment increases interest income on tax-exempt assets to the amount that would result if the income were taxable (and increases the tax provision by the same amount). This adjustment results in a better reflection of the pre-tax economic yield of these assets.

TOTAL REVENUE IMPROVES BY 9.4%

The Bank's total revenue is made up of net interest income and other income. Net interest income is primarily the interest earned on loans and securities less interest paid on the liabilities which fund these assets. Changes in net interest income result from changes in the volume of assets and liabilities and changes in the average net interest spread earned on those products. Other income includes revenue from operating services, card services, investment and securities services, foreign exchange, lending fees, trust and other services. Growth in revenue represents a vote of confidence from customers in the Bank's service and expanding range of products.

Total revenue was $4,861 million in 1993, up 9.4% from last year, as shown in Table 5 and Chart 4. This consisted of net interest income growth of 6.6% and an increase in other income of 15.8%. Chart 5 shows the distribution of total revenue in Canada, the United States and elsewhere. Total revenue increased in all three geographic areas in 1993. The proportion of revenue derived from the United States has increased from 1992, as the 12.4% rate of revenue growth from the United States exceeded the average 8.4% rate of revenue growth from Canada and other countries.

The Bank's strategy for revenue improvement is to increase business volumes by providing superior customer service and innovative products that meet the needs of the marketplace. As discussed on pages 27–29, the Bank has several specific revenue improvement strategies: growth in the Canadian personal and commercial market; increased profitability from the large corporate and institutional market; expanded investment in banking activities in the United States personal and commercial market; and the provision of a comprehensive range of investment banking services.

The remainder of this section discusses the growth of loans and deposits, net interest spread, management of the interest-rate sensitivity position, and other income.

Chart 4
Total Revenue
For the Year Ended October 31
($ in millions)

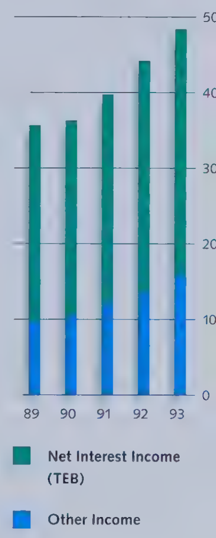


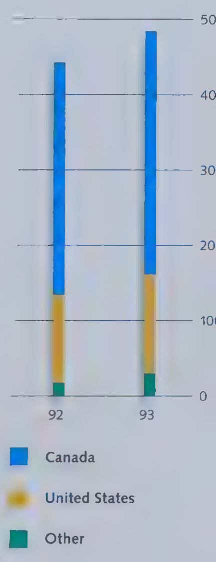
Table 5
Revenue
For the Year Ended October 31
($ in millions)

	1989	1990	1991	1992	**1993**	Increase 1993 over 1992 (%)
Net interest income as reported	2,527	2,535	2,708	3,010	**3,212**	6.7
Taxable equivalent adjustment	73	71	68	67	**68**	1.6
Net Interest Income (TEB)	2,600	2,606	2,776	3,077	**3,280**	6.6
Other income	986	1,047	1,219	1,365	**1,581**	15.8
Total Revenue	3,586	3,653	3,995	4,442	**4,861**	9.4

GROWTH OF LOANS AND DEPOSITS CONTRIBUTES SIGNIFICANTLY TO INCREASE IN NET INTEREST INCOME

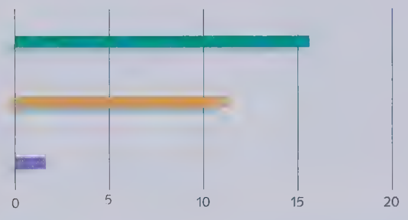
Net interest income in 1993 was $3,280 million, up $203 million or 6.6% from last year. Continued strong growth in loans and deposits partially offset by a slight decline in spread was a major contributor to the improvement. Net interest spread benefitted from higher interest income received on non-performing loans.

Chart 5
Geographic Distribution of Revenue
For the Year Ended October 31
($ in millions)



Growth in average loans in the Canadian personal and commercial market was 11.0% in 1993, reflecting growth in all our priority markets as indicated in Chart 6. Residential mortgages rose 15.7% over last year, commercial (small and mid-sized businesses) loans increased 11.3% and personal loans grew 1.7%. These increases were achieved through innovative product structuring, pricing and responsive customer service, and resulted in the higher market shares shown in Chart 7. Examples of the Bank's product pricing innovation are the enhancement and extension of the Bank's Small Business Lending Rate to April 1, 1994 and the introduction of the Protected Variable Rate Mortgage. During the course of 1993, up to 90,000 customers have benefitted from the Bank's Small Business Lending Rate. The five-year Protected Variable Rate Mortgage, the first of its kind in Canada, allows customers to enjoy low variable rates with the security of a preset maximum interest rate.

Chart 6
Loan Growth in Priority Markets in Canada
For the Year Ended October 31, 1993
(%)



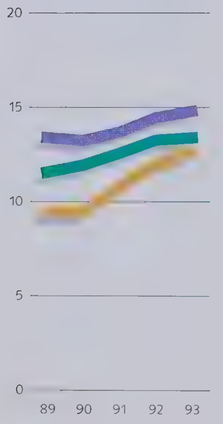
A discussion of deposits is provided in the Liquidity section under Diversified Funding Sources on page 52.

NET INTEREST SPREAD BENEFITS FROM HIGHER INTEREST INCOME RECEIVED ON NON-PERFORMING LOANS

Net interest spread is the difference between the interest rate earned on assets and the interest rate paid on deposits and other liabilities that fund those assets.

Net interest spread was 2.92% in 1993, compared to 2.96% in 1992. This slight decline was the result of offsetting changes in two key components of the spread: an increase in the interest income from non-performing loans and a decrease in the spread from normal operations. Chart 8 shows how these two components have contributed to net interest spread over the last five years. Average balances and interest rates for the Bank's assets and liabilities for 1993 compared to 1992 are shown in Table 6.

Chart 7
Loan Shares in Priority Markets in Canada
As at October 31
(%)



The interest received from non-performing loans increased by $121 million in 1993, primarily as a result of proceeds from the settlement of past-due interest on loans to Brazil. This settlement added $106 million to net interest income.

Net interest spread from normal operations narrowed from 2.91% to 2.77%. Changes in this component of net interest spread reflect the effect of three interdependent business factors:

- growth in loans and deposits resulting from customers' demand for products that meet their needs;
- changes in the interest rate margins due to changes in customer interest rates on loans and deposits; and
- changes in interest rate margins due to interest rate sensitivity positions, which reflect customers' changing term preferences.

The growth in loans and deposits was a major contributor to the growth in net interest income; however, customers' choice of products and their term preferences for loans and deposits resulted in reduced spread because the growth was in lower risk, lower spread products like mortgage loans, and higher-cost, longer-term deposits. Interest rate margins were narrower in 1993 than in 1992 primarily because the decline in interest rates had a beneficial effect in 1992 which did not occur to the same extent in 1993. The Bank's interest rate sensitivity position is explained in more detail on page 34.

Table 6

Average Balances and Average Interest Rates of Assets and Liabilities

For the Year Ended October 31
($ in millions)

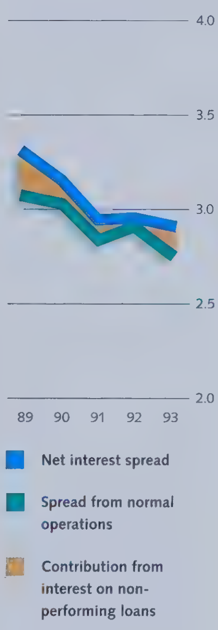
	1992* Average balances	1992* Average interest rate (%)	1992* Mix (%)	1993 Average balances	1993 Average interest rate (%)	1993 Mix (%)
Assets						
Deposits with other banks	9,493	5.69	9.1	**9,976**	**4.21**	**8.9**
Securities	19,998	6.91	19.2	**20,782**	**6.06**	**18.5**
Loans						
Canadian Dollars						
▪ Mortgages	18,358	10.22	17.6	**21,110**	**9.04**	**18.8**
▪ Consumer instalment, credit card and other personal loans	10,048	10.69	9.7	**10,330**	**9.50**	**9.2**
▪ Loans to businesses and governments	13,519	8.27	13.0	**14,949**	**6.87**	**13.3**
	41,925	9.70	40.3	**46,389**	**8.44**	**41.3**
U.S. Dollar and Other Currencies	24,547	6.35	23.6	**27,516**	**5.81**	**24.5**
Total Loans	66,472	8.46	63.9	**73,905**	**7.46**	**65.8**
Other Assets	8,094		7.8	**7,575**		**6.8**
Total Assets	104,057	7.26	100.0	**112,238**	**6.41**	**100.0**
Liabilities						
Deposits						
Canadian Dollars						
▪ Banks	2,585	5.18	2.5	**2,810**	**3.99**	**2.5**
▪ Businesses and governments	10,075	5.08	9.7	**11,590**	**4.10**	**10.3**
▪ Individuals	36,353	5.52	34.9	**38,057**	**4.51**	**33.9**
	49,013	5.41	47.1	**52,457**	**4.39**	**46.7**
U.S. Dollar and Other Currencies	38,384	3.94	36.9	**39,699**	**3.11**	**35.4**
Total Deposits	87,397	4.76	84.0	**92,156**	**3.84**	**82.1**
Subordinated debt and other interest-bearing liabilities	6,840	4.52	6.6	**10,220**	**3.67**	**9.1**
Other liabilities	4,958		4.8	**4,439**		**4.0**
Shareholders' equity	4,862		4.6	**5,423**		**4.8**
Total Liabilities and Shareholders' Equity	104,057	4.30	100.0	**112,238**	**3.49**	**100.0**
Net Interest Spread on Average Assets		2.96			**2.92**	

*Certain average balances were reclassified to conform with 1993 presentation.

Chart 8

Net Interest Spread

For the Year Ended October 31
(%)



Spread from normal operations excludes effect of non-performing loans.

Customers continue to demonstrate increasing sophistication in their choice of terms for borrowing and investing; this has resulted in a higher proportion of longer-term, higher-cost deposits. During 1993 the Bank responded to customer demand with the introduction of an escalating rate guaranteed investment certificate — one of the first introduced in Canada, which offers a higher interest rate each year of its term, while providing the option to reinvest in another guaranteed investment certificate, at specified times during the term. The Seniors' Choice™ Flexible Term Investment is a longer-term investment product that offers attractive investment rates while allowing some access to the invested funds at any time before maturity. At the same time, customers have shown a preference for shorter-term, lower-priced mortgages and loans.

MANAGEMENT OF INTEREST RATE SENSITIVITY POSITION

Changes in the level of interest rates have an effect on net interest spread and, therefore, net interest income. The amount and direction of the effect depends on the amount of assets and liabilities that reprice in the time period during which interest rates change. The management of these potential effects of changes in interest rates on the Bank's earnings is referred to as the management of interest rate risk.

Changes in the level of interest rates affect earnings as follows: an interest rate sensitivity position or gap exists when there is a difference in the asset and liability balances that would reprice in a particular period if interest rates changed. When repricing liabilities exceed repricing assets in a period, net interest spread will widen as interest rates decrease because the interest cost of deposits will decrease more than the interest yield on assets. This is referred to as a liability-sensitive gap. Conversely, when a sensitivity position is caused by repricing assets exceeding repricing liabilities — an asset-sensitive gap — the spread will narrow when rates decrease. When rates increase, the impact is the opposite of that described above.

The Bank maintains very strong control of interest rate risk by establishing prudent interest rate risk management policies and limits, regularly measuring and assessing interest rate positions, and frequently monitoring interest rate risk positions against established limits. The Bank measures and assesses interest rate risk positions using a wide range of sophisticated analytical techniques, such as gap analysis, income and market-value sensitivity testing and simulation analysis. The Bank also integrates new product development and pricing into the risk management process. Risk management policy formulation is the responsibility of the Bank's Risk Management Committee while the monitoring of positions is the responsibility of the Asset/Liability Management Committee.

A key measure of the level of interest rate risk in the balance sheet is the total sensitivity gap within one year. The Bank's interest rate sensitivity gaps as at October 31, 1993 and 1992 are shown in Table 7, with the Canadian dollar positions shown separately from the Bank's positions in U.S. dollars and other currencies. The Bank has a liability-sensitive gap within one year. During 1993, the Bank reduced its liability-sensitive gap within one year by approximately 60% for Canadian dollars. The position within one year was almost fully matched for U.S. dollars and other currencies.

REDUCED SENSITIVITY TO CHANGES IN INTEREST RATES.

Table 7

Interest Rate Sensitivity Position*

As at October 31
($ in billions)

	0 to 3 months	3 to 6 months	6 to 12 months	Total within 1 year	Over 1 year	Non-interest sensitive	Total
Canadian Dollars							
Assets	35.2	6.9	5.1	47.2	15.7	7.4	70.3
Liabilities	40.7	3.4	4.8	48.9	7.9	13.5	70.3
Interest Rate Sensitivity Position – 1993	(5.5)	3.5	0.3	(1.7)	7.8	(6.1)	–
Interest Rate Sensitivity Position – 1992	(9.1)	2.0	2.6	(4.5)	10.1	(5.6)	–
U.S. Dollar and Other Currencies							
Assets	28.8	5.5	3.7	38.0	4.4	4.2	46.6
Liabilities	36.8	2.2	(1.2)*	37.8	2.0	6.8	46.6
Interest Rate Sensitivity Position – 1993	(8.0)	3.3	4.9	0.2	2.4	(2.6)	–
Interest Rate Sensitivity Position – 1992	(8.8)	4.4	3.1	(1.3)	3.1	(1.8)	–

*The positions reflect the effect of off-balance sheet transactions, such as interest rate swaps, futures and forward rate agreements, undertaken as part of the Bank's management of interest rate risk. The positions also reflect adjustments made for projected prepayments on loans and mortgages and early redemptions of term deposits, where applicable.

OTHER INCOME BENEFITS FROM HIGHER VOLUMES IN ALL CATEGORIES

Other income is largely income from fee-based services. Fee-based services are becoming an increasingly important source of revenue. The Bank has been steadily increasing the proportion of other income to total revenue as it broadens the range of financial services it offers to meet customers' needs. Table 8 shows the major components of other income and the increasing percentage that other income represents of total revenue.

As shown in Table 8, other income increased 15.8% to $1,581 million in 1993 and represented 32.5% of total revenue, compared with 30.7% in 1992. Growth was recorded in all categories. Growth in other income during the last four years has increased each year from 7.6% in 1990 to 15.8% in 1993.

Table 8

Other Income

For the Year Ended October 31 ($ in millions)	1989	1990	1991	1992	**1993**	Increase 1993 over 1992 (%)
Operating services	302	334	357	390	**415**	6.7
Lending fees*	96	97	110	118	**147**	23.3
Card services	161	174	190	193	**208**	8.1
Investment and securities services	171	162	185	218	**282**	29.4
Trust income	125	140	146	165	**183**	10.8
Foreign exchange	116	139	136	161	**170**	5.4
Other services	105	112	125	120	**176**	46.9
Foreign currency translation adjustment	(90)	(111)	(30)	–	–	–
Total	986	1,047	1,219	1,365	**1,581**	15.8
Year-Over-Year Growth (excluding foreign currency translation adjustment)	(1.7%)	7.6%	7.8%	9.3%	**15.8%**	
Other Income, as a % of Total Revenue	27.5%	28.7%	30.5%	30.7%	**32.5%**	

*Fees relating to acceptances, guarantees and letters of credit were reclassified as lending fees to conform with 1993 presentation.

FEE-BASED SERVICES ARE BECOMING AN INCREASINGLY IMPORTANT SOURCE OF INCOME.

The Bank kept its commitment to customers by not increasing fees charged on many banking services and was rewarded with an increased volume of business. The freeze on customer service charges was initiated in June 1992 and will be in effect until January 1, 1995.

Operating services income increased 6.7%. Cash management services were a strong contributor. The 1992–1993 Brendan Wood Corporate Electronic Banking Survey reported that the Bank of Montreal's large corporate cash management clients gave the Bank a superior rating for customer service. Bank of Montreal also ranked number one in share of total cash management transactions processed for the large corporate market in Canada.

Lending fees increased 23.3%, reflecting the Bank's increased activities in bringing together borrowers and lenders in both U.S. and Canadian marketplaces. The Bank's role as an intermediary provides an important dimension in our Relationship Management Service, enabling us to offer our clients an effective combination of financing, treasury and operating services.

Credit card income grew 8.1%. Credit card income is primarily the fees paid to the Bank for processing merchant sales charged on credit cards. In May 1993, the Bank of Montreal and Shell Canada Limited launched a new credit card program, offering customers a choice of two credit cards and building on the relationship between Shell and Bank of Montreal as sponsors of the successful AIR MILES™* Travel Reward Program. The Bank also launched its new FirstHome program, through which the Bank contributes up to $2,500 from purchases charged on a Bank of Montreal MasterCard card (5% of purchases up to a maximum of $500 per year) towards the down payment on the customer's first home purchase.

Income from investment and securities services increased 29.4% in 1993. This improvement reflected strong performance from Investment Banking, largely due to Nesbitt Thomson's retail and institutional activities as well as its increased participation in corporate financing. Investment Banking's participation as a lead manager for large financings in the Canadian public markets in 1993 was at an all-time high. Higher securities commission revenue at both the retail and institutional level, a result of the strength of Canadian equity markets, also accounted for a significant portion of the improvement in this income category. During 1993, the Bank introduced six new mutual funds to provide more diversified investment opportunities for our customers. The First Canadian® Funds grew in 1993 by 58% to $5.1 billion. Nesbitt Thomson commenced selling all of the Bank's First Canadian Funds through its retail network in 1993. This arrangement is unique to the industry as no other investment dealer promotes the sale of its parent financial institution's proprietary no-load mutual funds. Along with the quality investment advice provided by the Nesbitt Thomson investment advisor, Nesbitt Thomson's customers also benefit from the opportunity to purchase quality mutual funds with no sales, redemption or transfer charges.

Income from trust services increased 10.8%. The Bank's income from trust services is generated mainly by Harris, which is one of the top 20 trust companies in the United States with assets under administration of $217 billion (U.S.$164 billion). Earlier in 1993, the Bank launched its new trust company in Canada — The Trust Company of Bank of Montreal. At October 31, 1993, its assets under administration totalled more than $40 billion.

Income from foreign exchange activities increased 5.4% primarily due to our ability to capitalize on the market conditions as well as the increased customer volumes in the U.S. marketplace. In September 1993, Bank of Montreal and Harris announced a new common management approach to Treasury operations designed to provide customers on both sides of the border with improved service, more products, better pricing and expanded market information. This new approach is expected to improve our competitive position and contribute to further growth in foreign exchange activities.

PRODUCTIVITY —

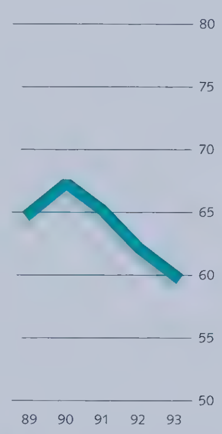
CONTINUOUSLY IMPROVING

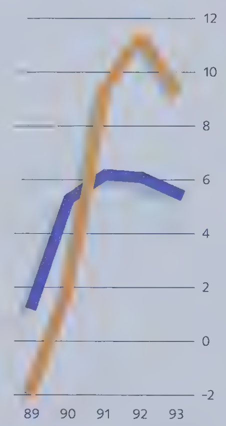
The Bank's primary measure of its productivity is the cost to revenue ratio of non-interest expense to total revenue. A lower ratio indicates improved productivity. The Bank's strategic plan places a high priority on continuously improving productivity, both to increase overall profitability and to generate funds for strategic investments. We also believe that reducing the Bank's cost structure generates more efficient, effective and error-free customer service, resulting in higher business volumes which, in turn, lead to improved revenue growth.

The Bank's productivity ratio improved from 62.2% in fiscal 1992 to 60.0% in 1993. The Bank's ratio has improved every year since 1990 when the ratio was 67.2%, as Chart 9 illustrates. This steady improvement reflects both higher revenue and effective expense management. At 1993 revenue levels, each percentage point improvement in the productivity ratio is worth nearly $50 million in pre-tax earnings.

Expense management is fundamental to our productivity strategy, because we believe it produces benefits on both sides of the productivity equation and supports our objective of being a low-cost provider of high-quality financial services.

Chart 9
Productivity
For the Year Ended October 31 (%)





EFFECTIVE EXPENSE MANAGEMENT

A comprehensive productivity improvement program has been underway since 1991. The four main components of the program are:

- Continuous improvement: This component has the greatest potential for the future. Employees are being trained to challenge and improve all processes, allowing us to be more responsive to customers.
- Business process re-engineering: This includes consolidation of back-office operations, process simplification, and automation of large volume transaction processing. The Bank's Operations group, for example, has completed 119 consolidations since 1988, contributing, along with other initiatives, to a 17% reduction in their expenses despite a substantial increase in transaction volume. As a result of these consolidations, employees have been redeployed in direct customer service areas.
- Management of individual expense categories for which the Bank has a disproportionately high share: Reductions made in several categories have contributed significantly to our overall improvement in productivity.
- Productivity strategies for individual operating companies: These strategies include cost-control objectives which allow for flexibility to invest in revenue-generating activities.

An analysis of non-interest expense by component — salaries and employee benefits, premises and equipment, communication, and other expense — is provided in Table 9.

In 1993 expenses increased 5.5% to $2,916 million. However, the effect of a weakening Canadian dollar against the United States dollar, and higher brokerage commissions and government levies were responsible for almost three-quarters of the increase. The increase excluding these factors was 1.5%. This was due mainly to the cost of investments for future growth, while increases due to real business volume and inflation have been largely offset by productivity improvements.

Salaries and employee benefits grew by 7.4% due mainly to higher brokerage commissions, which vary in relation to revenue. The increase was 3.1% excluding the special factors mentioned above.

Premises and equipment costs were up 4.2%, or 2.8% excluding special factors, driven mainly by investments in technology, branch renovations and expansions. The Bank is promoting out-of-branch facilities such as automated banking machines, point-of-sale

terminals and tele-banking to handle routine transactions. As an example, during 1993 245 additional automated banking machines were installed. Increased use of these facilities will provide more time for staff in the branches to improve service on more complex transactions.

Communications and other expenses grew 1.6% and 2.4% respectively. However, excluding special factors there were declines in both categories.

GROWTH DUE TO NORMAL OPERATIONS ONLY 1.5%.

Table 9
Non-Interest Expense

For the Year Ended October 31 ($ in millions)	1989*	1990*	1991*	1992*	**1993**	Increase (decrease) 1993 over 1992 (%)	(excluding special factors)**
Salaries and Employee Benefits	1,290	1,392	1,442	1,534	**1,648**	7.4	3.1
Premises and Equipment							
Rental and depreciation of premises	120	140	156	168	**180**	7.4	
Maintenance and repairs	82	83	90	91	**84**	(7.6)	
Property taxes	34	35	40	37	**40**	10.0	
Computer costs	148	155	169	184	**193**	4.5	
Other*	78	76	82	73	**79**	7.8	
Total Premises and Equipment	462	489	537	553	**576**	4.2	2.8
Communications	197	203	214	219	**222**	1.6	(0.2)
Other Expenses							
Business and capital taxes	52	68	64	82	**92**	12.8	
Professional fees	57	51	55	62	**64**	3.1	
Travel and business development	59	58	57	55	**59**	7.3	
Deposit insurance premiums	34	39	48	55	**62**	11.9	
Other***	179	153	188	205	**193**	(5.8)	
Total Other Expenses	381	369	412	459	**470**	2.4	(7.0)
Total Non-Interest Expense	2,330	2,453	2,605	2,765	**2,916**	5.5	1.5
Year-Over-Year Growth	1.4%	5.3%	6.2%	6.1%	**5.5%**		

*Reclassified to conform with 1993 presentation.
**Special factors consist of brokerage commissions, government levies, and the effect of the weakening Canadian dollar against the United States dollar.
***Includes clearing house fees, brokerage expense, amortization of goodwill, employee training and other miscellaneous expenses.

In 1993 government levies, other than income taxes, increased by $20 million. The most significant increase was in provincial capital taxes, which increased by $12 million, or 20.6%, over 1992. This was due mainly to the effect of higher tax rates in Ontario, Quebec and British Columbia on increased shareholders' equity. These levies, shown in Table 10, together with income taxes, represent a significant cost to the Bank.

Table 10
Government Levies other than Income Taxes

For the Year Ended October 31 ($ in millions)	1992*	**1993**	Increase (decrease) 1993 over 1992 (%)
Payroll levies	64	**66**	3.6
Property taxes	37	**40**	10.0
Provincial capital taxes	59	**71**	20.6
Business taxes	23	**21**	(7.4)
Goods and services tax	30	**28**	(7.0)
Deposit insurance	55	**62**	11.9
Total Government Levies other than Income Taxes	268	**288**	7.8

*Restated to conform with 1993 presentation.

CAPITAL ADEQUACY —

EXCEEDED REQUIREMENTS

The Bank's capital base provides depositors with protection against possible losses resulting from banking activities, and supports our business growth. The adequacy of capital is typically measured as the ratio of capital to risk-weighted assets including both balance sheet and off-balance sheet items. The Office of the Superintendent of Financial Institutions (OSFI) requires that Canadian banks maintain a specified minimum ratio of capital to risk-weighted assets. In addition, management also measures its capital adequacy using a balance sheet capital ratio, which is defined as equity plus non-controlling interest in subsidiaries divided by total assets.

The Bank's objective for capital is to maintain a strong risk-weighted capital ratio that consistently exceeds the minimum regulatory requirement. This is especially true with respect to the Tier 1 ratio which encompasses more-permanent capital. The secondary objective is to maintain an equity-to-assets ratio of at least 5%.

CAPITAL RATIO WELL IN EXCESS OF REQUIREMENT

During 1993 the Bank's total risk-weighted capital ratio strengthened to 10.31% from 8.91% in 1992, as shown in Table 11. This was well in excess of the 8% regulatory requirement. Using the United States' guidelines, the Bank's total risk-weighted capital ratio was 11.1%.

In addition, the Tier 1 ratio improved from 6.75% to 7.35%, well above the 4% regulatory requirement. The Bank's equity-to-assets ratio improved from 4.80% in 1992 to 4.93% this year.

TOTAL CAPITAL INCREASED 17%

The improved capital ratios reflect growth of 17% in total capital which resulted from both earnings retention of $363 million and the $93 million of common shares issued primarily under the Shareholders' Dividend Reinvestment and Share Purchase Plan. In addition, two subordinated debt issues totalling nearly $650 million were completed during 1993. A portion of the new capital was used to retire older, more expensive debt. The Bank minimizes the cost of the capital base by taking advantage of opportunities in the market.

DEFINITION

Capital Base

The capital adequacy guideline of the OSFI defines two tiers of capital. Tier 1 capital consists of common shareholders' equity; non-cumulative, perpetual preferred shares; and non-controlling interest in subsidiaries, less goodwill. This is considered to be more-permanent capital. Tier 2 capital consists of term or cumulative preferred shares and qualifying subordinated debt. Total capital is the sum of the two tiers, less investments in non-consolidated subsidiaries, with Tier 1 required to make up at least 50% of the total required capital. The components of the Bank's capital base and the capital ratios are presented in Table 11.

Chart 10
Risk-Weighted Capital Ratio
As at October 31
(%)

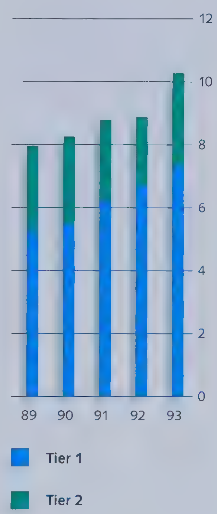


Table 11
Capital Funds

As at October 31 *($ in millions)*	1992	1993
Tier 1	5,060	**5,593**
Tier 2	1,650	**2,248**
Total Tier 1 and Tier 2 Capital	6,710	**7,841**
Less: Investment in non-consolidated subsidiary	(28)	**–**
Total Capital	6,682	**7,841**
Risk-Weighted Assets (see Table 12)	74,964	**76,074**
Risk-Weighted Capital Ratios		
Tier 1	6.75%	**7.35%**
Total	8.91%	**10.31%**
Required Regulatory Capital Ratios		
Tier 1	4.00%	**4.00%**
Total	8.00%	**8.00%**
Balance Sheet Capital Ratio		
Equity to assets	4.80%	**4.93%**

CAPITAL RATIOS WELL EXCEEDED REGULATORY REQUIREMENTS.

DEFINITION

Risk-Weighted Assets

Assets and off-balance sheet items are risk-weighted according to the deemed credit risk inherent therein. The key components of the calculations of risk-weighted assets are set out in Table 12.

Table 12
Risk-Weighted Assets

As at October 31 *($ in millions)*	1992*				1993
	Risk-weighted balance	**Balance**	**Credit risk equivalent**	**Risk-weighting (%)**	**Risk-weighted balance**
Balance Sheet Items					
Cash resources	1,950	**12,081**		**0–20**	**2,129**
Securities	2,980	**23,328**		**0–100**	**2,936**
Mortgages	9,688	**23,130**		**0–100**	**10,820**
Other loans and acceptances	43,568	**54,453**		**0–100**	**43,136**
Other assets	3,861	**3,877**		**0–100**	**3,718**
	62,047	**116,869**			**62,739**
Off-Balance Sheet Items					
Letters of credit and guarantees	3,976	**5,555**	**4,369**	**20–100**	**4,192**
Commitments	6,223	**45,260**	**7,520**	**0–100**	**7,163**
Foreign exchange rate contracts	2,181	**233,451**	**5,236**	**0–50**	**1,384**
Interest rate contracts	457	**113,438**	**1,719**	**0–50**	**548**
Other	80	**169**	**84**	**0–100**	**48**
	12,917				**13,335**
Total Risk-Weighted Assets	74,964				**76,074**

*Reclassified to conform with 1993 presentation.

ASSET QUALITY —

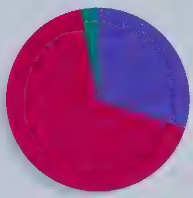
STABLE

Total assets at October 31, 1993 were $117 billion, up $7.8 billion, or 7.2%, from $109 billion a year ago. The major components of the Bank's assets as at October 31, 1993 are shown in Chart 11. At year-end, 30% of the assets comprised cash resources and securities, which are primarily liquid assets. The portfolio of loans and acceptances represented 67% of total assets. The remaining 3% was other assets, such as land, buildings and equipment, interest receivable, deferred income taxes and goodwill.

The Bank's measurement and management of asset quality focuses primarily on the quality of the loans and acceptances portfolio. A discussion of more liquid assets, such as cash and securities, is covered in the Liquidity section, beginning on page 51.

This section provides an assessment of asset quality and a discussion of the management and measurement of asset quality and the diversification of the portfolio.

Chart 11
Composition of the Asset Portfolio
As at October 31, 1993



- Cash Resources and Securities (30%)
- Loans and Acceptances (67%)
- Other (3%)

OVERALL ASSESSMENT OF ASSET QUALITY

The Bank's primary measure of asset quality is the provision for credit losses as a percentage of average loans. A secondary measure of asset quality is net non-performing loans and acceptances as a percentage of total loans. Lower ratios generally indicate better asset quality. The Bank's objective is to maintain consistently superior asset quality.

The Bank's performance in 1993 with respect to these two measures indicates stable asset quality. The provision for credit losses to average loans ratio was somewhat higher than last year's, but the level of specific provisions and the ratio of net non-performing loans and acceptances to total loans were lower.

HOW THE BANK MANAGES ASSET QUALITY

Management of asset quality within Bank of Montreal is based primarily on a strong credit culture that promotes a prudent and professional approach to risk-taking. Bank policy requires prompt recognition of problem accounts and their transfer to a group of specialists skilled in managing such accounts. The principles and activities that support this fundamental corporate philosophy are detailed below:

- disciplined decision-making, consisting of a **dual approach** to risk assessment whereby most business loans are reviewed by account managers and, separately, by **independent** credit officers;
- rigorous standards and processes of accreditation for all lending and credit officers, with discretionary lending authority commensurate with competencies and experience;
- clear communication of the Bank's credit standards through policies, procedures and training;
- clear definition of authorities and accountabilities at every stage in the lending process;
- regular review by a committee of Senior Executive Officers of all large credits recommended by line groups and a formal quarterly review of all problem accounts;
- effective management of the Bank's overall asset portfolio to diversify credit risk and limit concentration in single sectors or accounts;
- continuous review of credits and credit management processes by a strong, independent corporate audit group.

The Bank has in place a matrix of interlocking checks, balances and controls designed to produce a sound portfolio. Such systems have been in place for several years — with constant refinement — and have withstood the strong growth experienced in the late 1980s, as well as the recent recession.

Credit control systems also serve customers well. The Bank's focus on clearly defined lending guidelines and overall portfolio risk management allowed the Bank to maintain its credit standards throughout the recession, ensuring customers of a consistent approach to their borrowing needs.

The Bank's management of its overall portfolio includes regular industry reviews and ongoing assessment of levels of concentration and diversification. Diversification is achieved by:

- lending in different geographic locations;
- lending to a broadly based individual market;
- limiting the level of lending to specific individuals, businesses and group relationships;
- ensuring that lending to the commercial, corporate and institutional sectors is well diversified by industry and that the exposure to any one industry does not exceed acceptable limits.

MEASUREMENT OF ASSET QUALITY

DEFINITIONS

Provision for Credit Losses

Provision for credit losses is the charge to income for credit losses. Provisions may be specific if for a particular loan, or general if for a particular industry or geographic location where credit quality is deteriorating.

Allowance for Credit Losses

Allowance for credit losses is an accumulation of provisions for losses less amounts written off, net of recoveries. The allowance is deducted from the related asset category on the balance sheet.

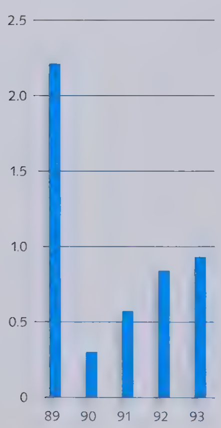
Loans and Acceptances

Loans and acceptances comprise loans (which include mortgages), loan substitutes and acceptances.

Non-Performing Loans and Acceptances

Non-performing loans and acceptances (non-performings) are those for which interest is past due or the collectibility of principal or interest is in doubt. Non-performing loans include real estate assets acquired in satisfaction of problem loans.

Chart 12
Provision for Credit Losses As a % of Average Loans
For the Year Ended October 31 (%)



PROVISION FOR CREDIT LOSSES TO AVERAGE LOANS

The Bank's 1993 provision for credit losses was $675 million, as shown in Table 13. This represents a $125 million increase from the amount provided in 1992, resulting in a ratio of provision for credit losses to average loans of 0.94%. This compares to 0.85% in 1992. In 1992 the provision for credit losses benefitted from the reversal of $244 million of the excess country risk provision. Excluding this reversal, the provision for credit losses ratio in 1993 was significantly lower than the 1992 level. The effect of years of economic weakness on the financial condition of many customers led the Bank to re-institute the general provision of $100 million established last year.

The weakness of the economic recovery throughout North America continued to have a particularly negative effect on the commercial real estate industry, causing an increase in the provision for credit losses on real estate loans. As shown in Chart 13, total provisions for specific loans declined, as reductions in other sectors offset the real estate increase.

Table 13
Provision for Credit Losses
For the Year Ended October 31
($ in millions)

	1992	1993
Specific Provisions		
Individuals	152	**113**
Commercial, Corporate and Institutional	592	**562**
Total Specific Provisions	744	**675**
Less: Application of prior-year general provision	(50)	**(100)**
Application of excess country risk provision	(244)	**–**
Net charge to earnings for specific provisions	450	**575**
Add: Charge to earnings for establishment of general provision	100	**100**
Total Provision for Credit Losses	550	**675**
Provision for Credit Losses, as a % of Average Loans	0.85%	**0.94%**

DECLINE IN TOTAL SPECIFIC PROVISIONS.

The allowance for credit losses decreased by $71 million to $1,999 million, as shown in Table 14. The decrease reflects the effect of a reduction in the allowance relating to designated country loans and securities sold during 1993. This reduction more than offsets an increase in the allowance relating to other loans and acceptances. As a result of this increase in the non-designated country allowance, the coverage of gross non-performing loans and acceptances improved to 39.3% as indicated in Table 15.

Chart 13
Specific Provisions
For the Year Ended October 31
($ in millions)

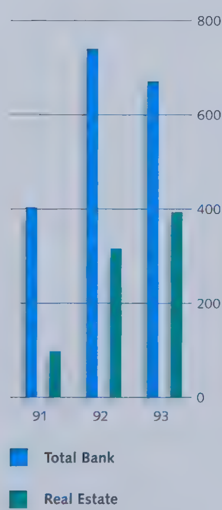


Table 14
Changes in the Allowance for Credit Losses
For the Year Ended October 31
($ in millions)

	1992	1993
Balance at Beginning of Year	2,149	**2,070**
Add: Provision for credit losses	550	**675**
Subtract: Write-offs, net of recoveries	(783)	**(829)**
Add: Other, including foreign exchange rate changes	154	**83**
Allowance for Credit Losses at End of Year	2,070	**1,999**

Table 15
Coverage Ratios Excluding Designated Countries
As at October 31

	1989	1990	1991	1992	1993
Allowance for Credit Losses,* as a % of Gross Non-Performing Loans and Acceptances	38.2%	38.5%	33.5%	36.1%	**39.3%**
Allowance for Credit Losses,* as a % of Gross Total Loans and Acceptances	0.8%	1.0%	1.0%	1.6%	**1.7%**

*Excludes allowance for credit losses for off-balance sheet exposure.

Chart 14

Growth in Net Non-Performing Loans and Acceptances

For the Year Ended October 31 ($ in millions)

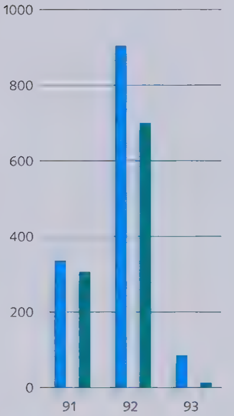
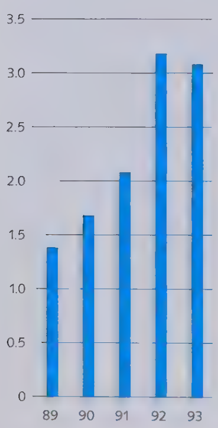


Chart 15

Net Non-Performing Loans and Acceptances

As a % of Net Total Loans As at October 31 (%)



NET NON-PERFORMING LOANS AND ACCEPTANCES TO NET TOTAL LOANS

At year-end 1993 net non-performing loans and acceptances increased $90 million to $2,263 million, or 3.1% of net total loans outstanding. This increase was down significantly from the $909 million increase experienced in 1992, mainly due to a sharp decline in increases to non-performing real estate loans, as shown in Chart 14.

Table 16

Net Non-Performing Loans and Acceptances

As at October 31 ($ in millions)

	1992	**1993**	Increase (decrease) 1993 over 1992
Market			
Individuals	86	**74**	(12)
Commercial, Corporate and Institutional	1,907	**1,965**	58
Designated Lesser Developed Countries	180	**224**	44
Total Net Non-Performing Loans and Acceptances	2,173	**2,263**	90
Net Non-Performing Loans and Acceptances, as a % of Net Total Loans	3.2%	**3.1%**	–

Additions to the non-performing account declined by 26% from 1992. This reduction, shown in Table 17, reflects the increasing stability in the portfolio.

Table 17

Analysis of Changes in Net Non-Performing Loans and Acceptances

For the Year Ended October 31 ($ in millions)

	1992	**1993**
Net Non-Performing Loans and Acceptances, Beginning of Period	1,264	**2,173**
Total Changes, Excluding Lesser Developed Countries		
Additions to non-performing loans and acceptances	2,030	**1,497**
Less: Loans and acceptances returning to performing status	(466)	**(730)**
Write-offs	(348)	**(524)**
Net Increase in Allowance for Credit Losses	(487)	**(197)**
Increase, Excluding Lesser Developed Countries	729	**46**
Increase, Designated Lesser Developed Countries	180	**44**
Net Non-Performing Loans and Acceptances, End of Period	2,173	**2,263**

DIVERSIFICATION OF LOANS AND ACCEPTANCES

The loans and acceptances portfolio is diversified throughout the individual market and the commercial, corporate and institutional markets. As shown in Table 18, total loans and acceptances, net of allowance for credit losses, were $78 billion at year-end, a $6.5 billion increase from the prior year.

Table 18

Total Loans and Acceptances by Market and Location (Net of Allowance for Credit Losses)

As at October 31 ($ in millions)

	1992	**1993**		Increase (decrease) 1993 over 1992	Net non-performings as a % of total
Market	$	**$**	Mix (%)	$	
Individuals	30,238	**32,259**	**41.5**	2,021	0.2
Commercial, Corporate and Institutional	40,602	**45,198**	**58.1**	4,596	4.3
Designated Lesser Developed Countries	424	**295**	**0.4**	(129)	75.9
Total Loans and Acceptances	71,264	**77,752**	**100.0**	6,488	2.9
Location					
Canada					
Atlantic Provinces	2,583	**2,693**	**3.5**	110	0.7
Quebec	8,645	**9,022**	**11.6**	377	2.9
Ontario	23,014	**25,913**	**33.3**	2,899	1.6
Prairies	7,070	**7,457**	**9.6**	387	2.1
British Columbia and Territories	7,808	**8,413**	**10.8**	605	0.4
Total Canada	49,120	**53,498**	**68.8**	4,378	1.7
United States	20,332	**22,665**	**29.2**	2,333	5.0
Other	1,812	**1,589**	**2.0**	(223)	14.6
Total Loans and Acceptances	71,264	**77,752**	**100.0**	6,488	2.9

LOANS TO INDIVIDUALS

Loans to individuals are primarily those managed by Personal and Commercial Financial Services and Harris. At October 31, 1993 loans to individuals were $32 billion — a 6.7% increase over the prior year — and accounted for 42% of the Bank's total loans and acceptances. Asset growth was due mainly to a continued high level of mortgage activity, although credit card initiatives, such as the FirstHome MasterCard card program, Shell Card and AIR MILES, were also contributors. Growth was evident in most regions, maintaining the broad geographic diversification of this portfolio.

The Bank's loans and mortgages to individuals are of very high quality as indicated by the low and improving ratios of net non-performing loans and provision for credit losses shown in Table 19. Increasing its share of this lower-risk market in both Canada and the United States is a high priority for the Bank.

Table 19

Loans to Individuals by Product (Net of Allowance for Credit Losses)

As at October 31 ($ in millions)	1992	**1993**		Increase 1993 over 1992	Net non-performing loans as a % of product
Product	$	**$**	**Mix (%)**	$	
Mortgages*	18,410	**19,988**	**62.0**	1,578	0.3
Cards**	2,694	**2,896**	**9.0**	202	–
Personal loans	9,134	**9,375**	**29.0**	241	0.2
Total Loans to Individuals	30,238	**32,259**	**100.0**	2,021	0.2
Net Non-Performing Loans, as a % of Total Loans	0.28%	**0.23%**			
For the Year Ended October 31					
Provision for Credit Losses, as a % of Average Loans	0.52%	**0.38%**			

*Excludes $1.3 billion (1992 – $1.0 billion) in residential mortgages classified as commercial and corporate loans.
**Credit card loans are written off at the same time as they are classified as non-performing.

COMMERCIAL, CORPORATE AND INSTITUTIONAL LOANS AND ACCEPTANCES

Loans and acceptances to commercial and corporate businesses and to institutions amounted to $45 billion at year-end, as shown in Table 20. This represented an increase of $4.6 billion or 11.3% from last year. Growth in loans to financial institutions represented almost all of this increase.

The high quality of loans and acceptances in the financial institutions industry is indicated by the ratio of net non-performings to total loans and acceptances, which, at 0.3%, is almost the same as that for the lower risk individual market. The remaining portfolio is well-diversified among a variety of industries. Growth in these industries, excluding real estate, was $821 million. This amount reflects strong growth in commercial lending (lending to businesses with revenues less than $500 million), offset by a net decline in corporate and institutional lending to these industries, primarily in Canada. The changes in the corporate and institutional portfolio reflect the highly competitive corporate marketplace in Canada, and the better loan pricing environment and more diversified customer base available in the United States. These factors underlie the Bank's emphasis on expanding its relationships with large U.S. corporations.

Loans and acceptances to the real estate sector were reduced by $445 million during 1993 to $5.8 billion at year-end. Management of this portfolio is discussed in the next section.

Table 20

Commercial, Corporate and Institutional Loans and Acceptances by Industry (Net of Allowance for Credit Losses)

As at October 31
($ in millions)

Industry	1992 $	1993 $	Mix (%)	Increase (decrease) 1993 over 1992 $	Net non-performings as a % of industry
Financial institutions	7,753	**11,973**	**26.5**	4,220	0.3
Commercial mortgages	2,806	**3,142**	**6.9**	336	1.0
Construction (non-real estate)	693	**648**	**1.4**	(45)	11.6
Manufacturing	5,987	**5,345**	**11.8**	(642)	1.0
Mining and energy	2,177	**1,896**	**4.2**	(281)	7.6
Service industries	3,399	**3,545**	**7.8**	146	1.5
Retail and wholesale trade	4,454	**4,909**	**10.8**	455	4.2
Agriculture	1,436	**1,582**	**3.5**	146	2.3
Transportation, communications and utilities	3,099	**3,310**	**7.3**	211	1.5
Other	2,673	**3,168**	**7.0**	495	0.8
Sub-Total, Excluding Real Estate	34,477	**39,518**	**87.2**	5,041	
Real Estate	6,225	**5,780**	**12.8**	(445)	23.4
Total Loans and Acceptances	40,702	**45,298**	**100.0**	4,596	4.6
General Provisions	(100)	**(100)**			
Total Loans and Acceptances Net of General Provisions	40,602	**45,198**		4,596	4.3
For the Year Ended October 31					
Provision for Credit Losses, as a % of Average Loans	1.71%	**1.36%**			

REAL ESTATE FINANCINGS

Weak economic recoveries in both Canada and the United States during 1993 continued to challenge real estate developers and the banks that provide their financing. Bank of Montreal's real estate portfolio was well diversified by property type and geographic location, with almost one-half of the portfolio outside Canada. Nevertheless, the Bank did experience significant losses. We believe that the level of losses incurred was moderated by our decision in the mid-eighties to curtail real estate financings, particularly in the office building, hotel and condominium segments and in several of the geographic areas that subsequently suffered badly. The following is an analysis of the real estate portfolio by property type and location.

ANALYSIS BY PROPERTY TYPE AND LOCATION

Table 21
Real Estate Financing by Property Type and Location (Net of Allowance for Credit Losses) (Includes Off-Balance Sheet)

As at October 31 ($ in millions)	1992*	1993		Increase (decrease) 1993 over 1992 (%)	Net non-performings	Net non-performings as a % of total
Property Type	$	$	**Mix (%)**	$		
Office	2,326	**1,970**	**31.5**	(356)	779	39.5
Residential (a)	1,482	**1,427**	**22.8**	(55)	105	7.4
Collateralized by securities other than real estate	66	**67**	**1.1**	1	–	–
Shopping centres	1,632	**1,580**	**25.2**	(52)	353	22.3
Land banking/development	351	**274**	**4.4**	(77)	78	28.5
Industrial buildings	542	**547**	**8.7**	5	32	5.9
Hotel/Motel	155	**145**	**2.3**	(10)	–	–
Other	180	**250**	**4.0**	70	7	2.8
Total Real Estate Financing	6,734	**6,260**	**100.0**	(474)	1,354	21.6
Location						
Canada						
Ontario	2,064	**1,849**	**29.5**	(215)	352	19.0
British Columbia	700	**751**	**12.0**	51	–	–
Alberta	341	**306**	**4.9**	(35)	165	53.9
Quebec	367	**356**	**5.7**	(11)	41	11.5
Other	136	**163**	**2.6**	27	4	2.5
Total Canada	3,608	**3,425**	**54.7**	(183)	562	16.4
United States						
Illinois	814	**891**	**14.2**	77	117	13.1
New York	344	**223**	**3.6**	(121)	196	87.9
California	495	**421**	**6.7**	(74)	145	34.4
Texas	241	**136**	**2.2**	(105)	77	56.6
Colorado	119	**71**	**1.1**	(48)	32	45.1
Washington	206	**113**	**1.8**	(93)	63	55.8
Minnesota	125	**130**	**2.1**	5	–	–
Nebraska	97	**98**	**1.6**	1	–	–
Nevada	98	**101**	**1.6**	3	–	–
New Jersey	100	**91**	**1.5**	(9)	73	80.2
Other	329	**439**	**7.0**	110	89	20.3
Total United States	2,968	**2,714**	**43.4**	(254)	792	29.2
United Kingdom	158	**121**	**1.9**	(37)	–	–
Total Real Estate Financing	6,734	**6,260**	**100.0**	(474)	1,354	
Off-balance sheet financing	(509)	**(480)**		29	–	
Total Real Estate Loans and Acceptances	6,225	**5,780**	**100.0**	(445)	1,354	23.4

*Restated to conform with 1993 presentation.
(a) Residential includes single-family units, rental apartments and condominiums.

The real estate portfolio is diversified over several different property types, with significant amounts in office, residential and shopping centre properties.

Geographically, the portfolio is spread primarily throughout Canada and the United States. Over 50% is in Canada, with Ontario having the greatest concentration, and the balance located mainly in British Columbia, Alberta and Quebec. In the United States, over 30% of the financing is for properties in Illinois with the remainder well distributed across the country.

Non-performing loans and acceptances totalled $1,354 million at year-end, which represents 23.4% of the portfolio. Although the non-performing portfolio is spread thoughout the various properties and locations, it is most heavily concentrated in office properties and shopping centres. The United States non-performing loans and acceptances account for almost 60% of the total.

The office market was hardest hit by the recession as indicated by 40% of the financing being classed as non-performing. A sharp drop in demand for office space in New York resulted in 88% of the portfolio being transferred to non-performing status. Over half of the financings in Alberta were classed as non-performing, due mainly to the office property situation. The portfolio in Ontario underwent major difficulties as well, due to financings to large Canadian developers who were also adversely affected by the recession.

MANAGEMENT OF THE REAL ESTATE PORTFOLIO

The Bank is aggressively dealing with its real estate portfolio. A key indicator of this is the significant reduction in increases to non-performing loans and acceptances from last year, as shown in Table 22. The Bank increased its provision for credit losses during the year to reflect continued weakness in the industry. This additional provision resulted in a 62% increase in the allowance for credit losses for real estate, producing a ratio of allowance for credit losses to gross non-performing loans and acceptances of 30.7%.

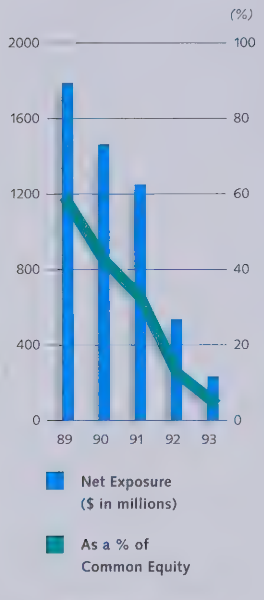
Table 22

Analysis of Changes in Real Estate Net Non-Performing Loans and Acceptances

For the Year Ended October 31 *($ in millions)*	1992	**1993**
Gross Non-Performing Loans and Acceptances, Beginning of Period	751	**1,707**
Additions to non-performing loans and acceptances	1,200	**816**
Less: Loans and acceptances returning to performing status	(167)	**(382)**
Write-offs	(77)	**(189)**
Gross Non-Performing Loans and Acceptances, End of Period	1,707	**1,952**
Allowance for Credit Losses, Beginning of Period	118	**370**
Increases	329	**417**
Write-offs	(77)	**(189)**
Allowance for Credit Losses, End of Period	370	**598**
Net Non-Performing Loans and Acceptances, Beginning of Period	633	**1,337**
Increases	704	**17**
Net Non-Performing Loans and Acceptances, End of Period	1,337	**1,354**
Allowance for Credit Losses, as a % of Gross Non-Performing Loans and Acceptances	21.7%	**30.7%**
Net Non-Performing Loans and Acceptances, as a % of Net Real Estate Loans and Acceptances	21.5%	**23.4%**

SHARP DECLINE IN INCREASES TO NON-PERFORMING REAL ESTATE LOANS.

Chart 16
Net LDC Exposure
As at October 31
($ in millions)



EXPOSURE TO DESIGNATED LESSER DEVELOPED COUNTRIES CONTINUED TO DECLINE.

DESIGNATED LESSER DEVELOPED COUNTRIES

During 1993 the Bank continued its program of managing its exposure to designated lesser developed countries (LDC), as illustrated in Chart 16.

In 1993 gross exposure was reduced by $573 million, or almost 40%, largely through sales of loans and securities; the excess of the aggregate sales price over book value for these transactions was used to increase the country risk provision rather than to increase earnings. At October 31, 1993 the net exposure to the designated countries sector was $241 million — lower than at year-end 1992.

The country risk provision as a percentage of gross exposure now stands at 74.0%, an increase from 63.1% in 1992.

Table 23
Exposure to Designated Lesser Developed Countries, by Country
As at October 31
($ in millions)

	1992	1993
Gross Exposure		
Brazil	726	**620**
Venezuela	310	**28**
Argentina	214	**45**
Bolivia	28	**–**
Ecuador	87	**91**
Poland	113	**121**
Total Gross Exposure	1,478	**905**
Country Risk Provision	(934)	**(664)**
Net Exposure	544	**241**
Provisioning Ratio	63.1%	**74.0%**
Net Exposure, as a % of Common Shareholders' Equity	12.6%	**5.0%**

Note: For purposes of calculating the provisioning ratio as directed by the OSFI, certain securities and the value of Canadian and United States risk collateral supporting the exposure are excluded. These totalled $23 million in 1992 and $64 million in 1993. In addition, write-offs on refinancings are added back to both gross exposure and allowance for credit losses. Write-offs were $20 million in 1993.

The relatively high provisioning level results in a book value which is significantly below current market prices. This LDC portfolio, together with the Bank's portfolio of Mexican discount bonds, has a market value in excess of book value of over $250 million. In addition, the Bank is owed $220 million of past-due interest by some of the countries, as shown in Table 24. None of this has been taken into income. This past-due amount is lower than the amount due at the end of 1992, primarily due to the sale of past-due interest bonds received from Brazil.

Table 24
Overdue/Unaccrued Interest on Designated Lesser Developed Countries Exposure
As at October 31
($ in millions)

	1992	1993
Brazil	176	**84**
Argentina	49	**55**
Other	102	**81**
Total Overdue/Unaccrued Interest on Designated Countries Exposure	327	**220**

LIQUIDITY –

SUBSTANTIAL FLEXIBILITY AND STRENGTH

The Bank measures liquidity as the proportion of liquid assets to total assets. Liquid assets comprise deposits with major domestic and international banks, other cash resources, and securities, including Government Bonds and Treasury Bills. In general, liquidity is generated through growth in deposits in excess of lending requirements.

Liquidity management is essential to sound financial control of the Bank. Liquidity makes it possible for the Bank to have funds available for lending or investment and to honour deposit and other liabilities as they mature. It is our objective to ensure that there is sufficient cash flow not only to meet all our commitments, but also to provide the flexibility to expand customer relationships when opportunities arise.

At October 31, 1993, liquid assets were $35.4 billion, or 30.3% of total assets, compared to $33.9 billion, or 31.1%, a year ago. The lower proportion of liquid assets reflects a higher rate of loan growth than deposit growth during the year. Details of the liquidity portfolio are shown in Table 25.

Table 25
Liquidity
As at October 31
($ in billions)

	1989*	1990*	1991*	1992*	**1993**
Canadian Dollar Liquid Assets					
Deposits with other banks	2.2	3.1	1.8	1.4	**1.8**
Other cash resources	1.4	0.8	1.5	1.0	**0.7**
Securities	5.1	6.3	11.7	15.2	**16.4**
Total	8.7	10.2	15.0	17.6	**18.9**
U.S. Dollar and Other Currency Liquid Assets					
Deposits with other banks	4.4	7.7	9.3	8.1	**8.5**
Other cash resources	0.6	0.8	1.0	0.8	**1.1**
Securities	4.7	6.0	6.2	7.4	**6.9**
Total	9.7	14.5	16.5	16.3	**16.5**
Total Liquid Assets	18.4	24.7	31.5	33.9	**35.4**
Liquid Assets, as a % of Total Assets	23.3%	28.3%	31.9%	31.1%	**30.3%**

*Reclassified to conform with 1993 disclosure.

DIVERSIFIED FUNDING SOURCES

Diversification of funding sources is another key aspect of liquidity management. Prudent financial control dictates that a bank have access to well-diversified funding sources. Diversification is a key element in ensuring secure and continuous availability of stable, low-cost deposits. Most of the Bank's Canadian dollar funding is provided by individual deposits that are both stable and cost-effective. Deposits in U.S. dollars or other currencies are raised either through Harris or in the form of wholesale funds from central banks, fiduciary funds, other large banks and corporations.

The composition of the Bank's deposit base is shown in Table 26. Over 55% of our deposit base consisted of Canadian dollar deposits gathered primarily through our large branch network. Individual Canadian dollar deposits grew $1.7 billion over 1992. Growth in these deposits has been encouraged by the Bank's offering of competitive products such as the escalating rate guaranteed investment certficate, an innovative, long-term deposit product that offers a higher rate of interest for each year of its term.

The mix and term of deposits also affects the Bank's net interest spread. The discussion of net interest spread was covered on page 32.

Table 26
Deposits

As at October 31 *($ in billions)*	1989*	1990*	1991*	1992*	**1993**	**Mix (%)**
Canadian Dollar Deposits						
By banks	1.2	1.5	2.1	2.3	**3.1**	**3.3**
By businesses and governments	7.7	7.9	9.9	12.4	**10.9**	**11.6**
By individuals	30.5	33.1	35.5	37.5	**39.2**	**41.6**
Total	39.4	42.5	47.5	52.2	**53.2**	**56.5**
U.S. Dollar and Other Currency Deposits						
By banks	9.3	12.3	12.5	16.7	**17.7**	**18.8**
By businesses and governments	12.8	13.7	18.0	16.9	**18.2**	**19.3**
By individuals	4.4	4.8	4.8	4.9	**5.2**	**5.4**
Total	26.5	30.8	35.3	38.5	**41.1**	**43.5**
Total Deposits	65.9	73.3	82.8	90.7	**94.3**	**100.0**

*Reclassified to conform with 1993 disclosure.

For the Three Months Ended:	Oct. 31 1993	July 31 1993	April 30 1993	Jan. 31 1993	Oct. 31 1992	July 31 1992	April 30 1992	Jan. 31 1992
Balance Sheet Data ($ in billions)								
Total assets	117	111	109	106	109	105	104	101
Loans	74	71	70	69	68	65	65	64
Deposits	94	90	89	89	91	87	87	84
Total capital funds	8	7	7	7	7	7	7	6
Common equity	5	5	5	4	4	4	4	4
Average assets	114	112	110	110	107	105	103	101
Income Statement Data ($ in millions)								
Net interest income (TEB) (a)	830	852	818	780	777	813	727	760
Other income	421	392	392	376	350	351	339	325
Total Revenue (TEB) (a)	1,251	1,244	1,210	1,156	1,127	1,164	1,066	1,085
Provision for credit losses	175	175	163	162	150	150	125	125
Non-interest expense	722	746	736	712	692	711	691	671
Provision for income taxes (TEB) (a)	151	141	137	126	124	130	105	124
Non-controlling interest in subsidiary	2	2	1	1	1	–	2	1
Net Income	201	180	173	155	160	173	143	164
Dividends Declared								
Common shares	70	70	69	69	65	64	64	64
Preferred shares	17	17	17	17	17	16	15	16
Common Share Information ($) (b)								
Basic earnings per share	0.74	0.66	0.63	0.56	0.59	0.64	0.53	0.62
Dividends declared per share	0.28	0.28	0.28	0.28	0.27	0.26	0.27	0.26
Market price per common share								
High	27.375	27.250	25.250	23.938	23.938	24.125	22.688	23.688
Low	24.500	24.500	21.313	21.438	20.750	21.250	20.813	18.563
Close	26.875	27.125	25.125	22.063	23.563	24.000	21.875	22.500
Book value per common share	19.40	18.85	18.44	18.06	17.69	17.23	16.84	16.55
Average number of common shares outstanding (in thousands)	248,931	248,491	247,634	245,849	244,309	242,834	241,320	239,835
Financial Measures (%)								
Profitability								
Return on average common shareholders' equity	15.4	14.1	14.2	12.5	13.4	15.1	13.0	15.1
Productivity								
Non-interest expense to total revenue	57.7	59.9	60.9	61.6	61.5	61.1	64.8	61.8
Capital								
Risk-Weighted Capital Ratios								
Tier 1	7.35	7.14	7.07	7.02	6.75	6.79	6.79	6.31
Total	10.31	9.59	9.59	9.24	8.91	8.99	9.05	8.49
Asset Quality								
Provision for credit losses to average loans (c)	0.94	0.93	0.90	0.92	0.82	0.83	0.77	0.81

(a) Reported on a taxable equivalent basis (TEB).
(b) Restated to reflect 2-for-1 stock distribution completed in March 1993.
(c) 1992 restated to conform with 1993 presentation.

($ in millions)	**1993**	1992	1991	1990	1989	1988	1987	1986	1985	1984
Balance Sheet Data										
Assets										
Cash resources	**12,081**	11,288	13,607	12,502	8,581	10,170	13,540	14,514	12,736	13,276
Securities	**23,328**	22,581	17,862	12,238	9,761	9,946	11,049	10,525	10,525	8,835
Loans	**74,028**	68,251	60,172	55,106	54,303	51,986	52,595	54,471	51,966	47,929
Acceptances	**3,555**	2,878	3,712	3,508	2,778	3,584	3,287	4,633	4,228	3,612
Other assets	**3,877**	4,037	3,372	4,016	3,498	3,223	3,757	3,037	2,965	2,839
Total	**116,869**	109,035	98,725	87,370	78,921	78,909	84,228	87,180	82,420	76,491
Liabilities, Share Capital and Retained Earnings										
Deposits	**94,311**	90,747	82,789	73,321	65,923	66,370	72,084	74,876	71,388	66,671
Other liabilities	**14,509**	11,458	9,816	8,650	7,922	7,448	7,422	7,196	6,480	5,809
Subordinated debt	**2,363**	1,666	1,570	1,473	1,329	1,307	1,259	1,463	1,100	1,065
Share capital										
▪ Preferred	**852**	832	718	475	650	450	450	650	650	650
▪ Common	**2,632**	2,539	2,416	2,276	2,162	2,048	1,931	1,253	1,130	949
Retained earnings	**2,202**	1,793	1,416	1,175	935	1,286	1,082	1,742	1,672	1,347
Total	**116,869**	109,035	98,725	87,370	78,921	78,909	84,228	87,180	82,420	76,491
Average Balances										
Loans	**71,931**	65,080	58,236	54,014	53,110	52,538	53,396	54,769	50,022	43,200
Assets	**112,238**	104,057	94,033	82,452	78,878	79,312	84,584	86,761	79,464	66,715
Income Statement Data										
Net interest income (TEB) (a)	**3,280**	3,077	2,776	2,606	2,600	2,611	2,256	2,274	2,140	1,753
Other income	**1,581**	1,365	1,219	1,047	986	1,042	853	818	684	504
Total Revenue (TEB) (a)	**4,861**	4,442	3,995	3,653	3,586	3,653	3,109	3,092	2,824	2,257
Provision for credit losses	**675**	550	337	169	1,181	390	75	605	330	365
Non-interest expense	**2,916**	2,765	2,605	2,453	2,330	2,297	2,055	1,935	1,788	1,384
Provision for income taxes (TEB) (a)	**555**	483	452	506	109	460	452	238	309	211
Non-controlling interest in subsidiary	**6**	4	6	3	5	6	4	4	4	4
Net Income (Loss) Before Special Provision	**709**	640	595	522	(39)	500	523	310	393	293
Special provision net of income taxes	**–**	–	–	–	–	–	765	–	–	–
Net Income (Loss)	**709**	640	595	522	(39)	500	(242)	310	393	293
Share Capital										
Balance at beginning of year	**3,371**	3,134	2,751	2,812	2,498	2,381	1,903	1,780	1,599 (b)	1,196 (b)
Increase (decrease) in preferred shares	**20**	114	243	(175)	200	–	(200)	–	–	275
Common shares issued	**93**	123	140	114	114	117	678	123	181	128
Balance at end of year	**3,484**	3,371	3,134	2,751	2,812	2,498	2,381	1,903	1,780	1,599
Retained Earnings										
Balance at beginning of year	**1,793**	1,416	1,175	935	1,286	1,082	1,742	1,672	1,347	1,192
Net income (loss)	**709**	640	595	522	(39)	500	(242)	310	393	293
Dividends	**(346)**	(321)	(301)	(288)	(279)	(252)	(229)	(215)	(206)	(188)
Other changes	**46**	58	(53)	6	(33)	(44)	(189)	(25)	138	50
Balance at end of year	**2,202**	1,793	1,416	1,175	935	1,286	1,082	1,742	1,672	1,347

(a) Reported on a taxable equivalent basis (TEB).
(b) Includes balances for contributed surplus transferred to common shares in 1985.

	1993	1992	1991	1990	1989	1988	1987	1986	1985	1984
Common Share Information (c)										
Common shares outstanding (in thousands)	**249,094**	244,819	238,770	229,989	221,520	213,524	204,182	162,529	154,852	140,995
Basic earnings per share ($)	**2.59**	2.38	2.31	2.10	(0.39)	2.19	(1.60)	1.58	2.23	1.76
Dividends per common share ($)	**1.12**	1.06	1.06	1.06	1.06	1.00	1.00	0.98	0.98	0.98
Market Price per common share ($)										
▪ High	**27.375**	24.125	19.188	17.188	17.625	14.875	19.625	17.625	15.750	14.188
▪ Low	**21.313**	18.563	13.250	12.250	13.313	12.313	12.750	13.625	11.625	10.688
▪ Close	**26.875**	23.563	18.688	13.500	17.000	14.250	13.313	17.063	15.375	11.813
Book value per common share ($)	**19.40**	17.69	16.05	15.00	13.98	15.61	14.75	18.43	18.10	16.28
Price-to-earnings ratio	**10.4**	9.9	8.1	6.4	NM	6.5	NM	10.8	6.9	6.7
Market-to-book value	**1.39**	1.33	1.16	0.90	1.22	0.91	0.90	0.93	0.85	0.73
Financial Measures (%)										
Return on Investment										
▪ Dividend yield (d)	**4.7**	5.7	7.9	6.2	7.4	7.5	5.9	6.4	8.3	7.2
▪ Capital gain (loss) (e)	**14.0**	26.1	38.4	(20.6)	19.3	7.0	(22.0)	11.0	30.2	(12.9)
Total Return	**18.7**	31.8	46.3	(14.4)	26.7	14.6	(16.1)	17.3	38.5	(5.7)
Profitability										
Return on average common shareholders' equity	**14.1**	14.1	15.0	14.6	(2.5)	14.7	(9.3)	8.5	13.2	10.9
Growth in total revenue	**9.4**	11.2	9.4	1.9	(1.8)	17.5	0.5	9.5	25.1	5.1
Growth in non-interest expense	**5.5**	6.1	6.2	5.3	1.4	11.8	6.2	8.2	29.2	10.8
Differential	**3.9**	5.1	3.2	(3.5)	(3.3)	5.7	(5.7)	1.3	(4.1)	(5.7)
Productivity										
Non-interest expense to total revenue	**60.0**	62.2	65.2	67.2	65.0	62.9	66.1	62.6	63.3	61.3
Capital										
Risk-weighted capital ratios										
▪ Tier 1	**7.35**	6.75	6.25	5.51	5.29	5.16	NA	NA	NA	NA
▪ Tier 2	**2.96**	2.16	2.57	2.78	2.70	2.42	NA	NA	NA	NA
▪ Total	**10.31**	8.91	8.82	8.29	7.99	7.58	NA	NA	NA	NA
Asset Quality										
Provision for credit losses to average loans	**0.94**	0.85	0.58	0.31	2.22	0.74	0.14	1.10	0.66	0.84
Equity to assets	**4.93**	4.80	4.65	4.54	4.80	4.85	4.22	4.25	4.26	3.92
Other										
Number of employees	**32,067**	32,126	32,130	33,580	33,666	34,115	34,482	32,988	33,281	33,598
Number of branches	**1,251**	1,267	1,274	1,275	1,264	1,258	1,253	1,220	1,220	1,222
Number of automated banking machines (Canada)	**1,538**	1,293	1,221	1,163	937	753	689	655	556	453

(c) Restated to reflect 2-for-1 stock distribution completed in March 1993.
(d) Dividends per common share divided by prior-year closing common share price.
(e) Change in common share price during the year as a percentage of prior-year closing common share price.
NM – Not meaningful.
NA – Not available.

DEVELOPMENTS IN 1993

- Exports, the only meaningful source of growth in Canada during 1992, experienced modest gains in the first half of 1993 — up only 5.0% at an annual rate versus a rise of more than 10% in 1992.
- GDP rose significantly in the first two quarters of 1993 — up nearly 3.5% at an annual rate. The improved performance was almost exclusively due to inventory building; consumer spending — which accounts for 60% of GDP — was again lifeless. Employment growth continued to be weak and the unemployment rate remained above 11%.
- A weak economy and further improvement in Canada's underlying inflation rate permitted the Bank of Canada to further ease monetary conditions. Both short- and long-term rates of interest and the Canadian dollar declined over the year.

EXPECTATIONS FOR 1994

- Recovery in Canada will strengthen in 1994 — economic growth of 3.5% compared to a forecast of 2.7% for 1993.
- Unemployment will remain at about 11% throughout the coming year.
- Average annual inflation rate for 1994 will be about 1.6% compared to a forecast 1.8% for 1993.
- Both long- and short-term interest rates will decline further. Canada's prime rate of interest is expected to stay at 5.5%.
- The Canadian dollar will settle in the U.S. 74-75 cent range.
- The combined federal/provincial deficit for 1993/94 will be substantially higher than recent projections.
- Housing starts will improve gradually.
- Canada's current account deficit — which measures the addition to its net external indebtedness — deteriorated in 1993. A modest improvement is expected in 1994.
- Economic growth in the U.S. will be about 3.2% in 1994 compared to a forecast 2.3% this year.

IMPLICATIONS FOR THE BANKING INDUSTRY AND BANK OF MONTREAL

- Modest economic growth and very low inflation imply relatively weak growth in total assets and deposits. This environment implies that most gains in dollar terms will result from volume rather than price increases. Residential mortgage loans are expected to continue as the fastest growing asset component reflecting: increased activity due to the drop in mortgage rates; and consolidation of household debt into lower rate and longer amortization mortgage loans. Non-mortgage personal lending is expected to grow slowly. Business lending is expected to remain sluggish. Bank of Montreal intends to continue to grow faster than the industry average.
- Deposit growth will be under further downward pressure as savers continue, in response to low interest rates, to shift in the direction of money-market funds and mutual funds. The Bank offers a complete range of deposit, money-market and mutual funds to meet the changing needs of its customers. Our substantial cash resources and securities can fund growth in loans if deposit growth is not adequate.
- Fixed term deposits are expected to be the fastest growing deposit category; an expected steep yield curve will make longer maturity deposits relatively attractive. This may more than offset the benefit to banks of further declines in interest rates generally. The Bank's interest rate sensitivity position has been reduced, moderating the potential effects of changes in the level of interest rates.
- Bank of Montreal's Canadian dollar earnings benefit from a stronger U.S. dollar due to the significant and expanding level of our operations in the United States.

ANNUAL FINANCIAL STATEMENTS

Bank of Montreal

Consolidated Balance Sheet

As at October 31 ($ in millions)

Assets	1993	1992
Cash Resources		
Cash and deposits with Bank of Canada	$ 1,158	$ 1,379
Deposits with other banks	10,238	9,514
Cheques and other items in transit, net	685	395
	12,081	11,288
Securities (net of allowance for credit losses) (notes 2 & 4)		
Issued or guaranteed by:		
Government of Canada	14,013	12,699
Provinces and municipalities	1,067	1,246
Other securities	8,248	8,636
	23,328	22,581
Loans (net of allowance for credit losses) (notes 3 & 4)		
Residential mortgages	21,256	19,428
Non-residential mortgages	1,874	1,786
Consumer instalment, credit card and other personal loans	12,271	11,828
Loans to businesses and governments	38,627	35,209
	74,028	68,251
Other		
Customers' liability under acceptances	3,555	2,878
Land, buildings and equipment (note 5)	1,458	1,327
Other assets (note 6)	2,419	2,710
	7,432	6,915
Total Assets	$116,869	$109,035

Liabilities and Shareholders' Equity	1993	1992
Deposits (note 8)		
Banks	**$ 20,807**	$ 19,032
Businesses and governments	**29,127**	29,311
Individuals	**44,377**	42,404
	94,311	90,747
Other		
Acceptances	**3,555**	2,878
Other liabilities (note 9)	**10,878**	8,508
Non-controlling interest in subsidiary	**76**	72
	14,509	11,458
Subordinated Debt (note 10)	**2,363**	1,666
Shareholders' Equity		
Share capital (note 11)		
Preferred shares	**852**	832
Common shares	**2,632**	2,539
Retained earnings	**2,202**	1,793
	5,686	5,164
Total Liabilities and Shareholders' Equity	**$116,869**	$109,035

M.W.

Matthew W. Barrett
Chairman and
Chief Executive Officer

F. Anthony Comper
President and
Chief Operating Officer

Bank of Montreal

Consolidated Statement of Income

For the Year Ended October 31 ($ in millions except per share amounts)

	1993	1992
Interest, Dividend and Fee Income		
Loans	$5,505	$5,620
Securities	1,200	1,322
Deposits with banks	420	540
	7,125	7,482
Interest Expense		
Deposits	3,538	4,163
Subordinated debt	169	148
Other liabilities	206	161
	3,913	4,472
Net Interest Income	3,212	3,010
Provision for credit losses	675	550
Net Interest Income After Provision for Credit Losses	2,537	2,460
Other Income		
Operating services	415	390
Lending fees	147	118
Card services	208	193
Investment and securities services	282	218
Trust income	183	165
Foreign exchange	170	161
Other	176	120
	1,581	1,365
Net Interest and Other Income	4,118	3,825
Non-Interest Expense		
Salaries and employee benefits	1,648	1,534
Premises and equipment	576	553
Communications	222	219
Other expenses	470	459
	2,916	2,765
Income Before Provision for Income Taxes	1,202	1,060
Provision for income taxes (note 12)	487	416
Income Before Non-Controlling Interest in Subsidiary	715	644
Non-controlling interest	6	4
Net Income	$ 709	$ 640
Net income per common share (notes 11 & 13)		
▪ basic	$ 2.59	$ 2.38
▪ fully diluted	2.55	2.36

Bank of Montreal

Consolidated Statement of Changes in Shareholders' Equity

For the Year Ended October 31 ($ in millions)

	1993	1992
Preferred Shares (note 11)		
Balance at beginning of year	**$ 832**	$ 718
Proceeds from the issue of preferred shares	**–**	369
Translation adjustment on shares issued in a foreign currency	**20**	13
Preferred shares retired	**–**	(268)
Balance at end of year	**852**	832
Common Shares (note 11)		
Balance at beginning of year	**2,539**	2,416
Proceeds from the issue of common shares	**93**	123
Balance at end of year	**2,632**	2,539
Retained Earnings		
Balance at beginning of year	**1,793**	1,416
Net income	**709**	640
Dividends ▪ Preferred shares	**(68)**	(64)
▪ Common shares	**(278)**	(257)
Unrealized gain on translation of net investment in foreign operations, net of hedging activities and applicable income tax	**47**	68
Share issue expense, net of applicable income tax	**(1)**	(5)
Premium paid on retirement of preferred shares	**–**	(5)
Balance at end of year	**2,202**	1,793
Total Shareholders' Equity	**$5,686**	$5,164

Bank of Montreal

Consolidated Statement of Changes in Financial Position

For the Year Ended October 31 ($ in millions)

	1993	1992
Cash Flows From Operating Activities		
Net income	$ 709	$ 640
Adjustments to determine net cash flows		
Provision for credit losses	675	550
Depreciation and amortization	177	163
Deferred income taxes	18	(11)
Change in net accrued interest	98	(42)
Amortization of goodwill	38	36
Other items	46	58
	1,761	1,394
Cash Flows From Financing Activities		
Deposits	3,564	7,958
Other liabilities	2,392	2,512
Subordinated debt	697	96
Preferred shares	20	114
Common shares	93	123
Dividends paid	(346)	(321)
	6,420	10,482
Cash Flows Used In Investing Activities		
Non-operating balances on deposit with other banks	374	(1,914)
Securities	750	4,741
Loans	6,449	8,607
Land, buildings and equipment	308	190
Other assets	(119)	657
	7,762	12,281
Net Increase (Decrease) in Cash and Cash Equivalents	419	(405)
Cash and Cash Equivalents, Beginning of Year	2,432	2,837
Cash and Cash Equivalents, End of Year	$2,851	$ 2,432
Represented by:		
Cash and deposits with Bank of Canada	$1,158	$ 1,379
Operating balances on deposit with other banks	1,008	658
Cheques and other items in transit, net	685	395
	$2,851	$ 2,432

($ in millions except as otherwise indicated)

1 SIGNIFICANT ACCOUNTING POLICIES

These consolidated financial statements have been prepared in accordance with generally accepted accounting principles, including the accounting requirements of the Superintendent of Financial Institutions Canada.

BASIS OF CONSOLIDATION

The consolidated financial statements include the Bank and all of its subsidiaries, net of intercompany transactions and balances. Subsidiaries are defined as corporations whose operations are controlled by the Bank, generally corporations in which the Bank owns more than 50% of the voting shares. The purchase method is used to account for all acquisitions. The difference between the cost of the investment and the fair value of the net assets acquired is deferred and amortized to income over the estimated periods of benefit not exceeding 25 years. The unamortized balance is recorded in other assets as goodwill and other valuation intangibles.

TRANSLATION OF FOREIGN CURRENCIES

Assets and liabilities and shareholders' equity denominated in foreign currencies are translated into Canadian dollars at rates prevailing on the balance sheet date. Income and expenses are translated at the average exchange rates prevailing during the year.

Realized and unrealized gains and losses on foreign currency assets and liabilities and shareholders' equity, other than those relating to net investments in foreign operations, are recorded in other income.

Unrealized foreign currency translation gains and losses on investments in foreign branches, subsidiaries, and associated corporations are recorded in retained earnings, net of the after-tax effect of any offsetting gains and losses on instruments designated as hedges. Such gains and losses are recorded in income only when realized.

SECURITIES

Securities comprise investment, trading and loan substitute securities.

Investment securities are securities where the Bank's original intention is to hold to maturity or until market conditions render alternative investments more attractive. Equity securities are carried at cost and debt securities at amortized cost. Gains and losses on disposal of these securities and write-downs to reflect declines in value which are considered to be other than temporary are recorded as a credit or charge to interest, dividend and fee income from securities in the year in which they occur.

Trading securities are securities purchased for resale over a short period of time. Such securities are carried at market value. Adjustments to market value and gains and losses on sale of trading securities are recorded in interest, dividend and fee income from securities in the year in which they occur. Obligations related to securities sold but not yet purchased are recorded in other liabilities.

Loan substitute securities are customer financings structured as after-tax investments to provide the borrower with an interest rate advantage over what would otherwise be applicable on a conventional loan. Such securities are accorded the accounting treatment applicable to loans.

LOANS

Loans are stated net of any unearned income, unamortized discounts and allowance for credit losses.

Interest income is recorded on an accrual basis except on loans classified as non-accrual.

Loan syndication fees are recorded in other income upon completion of the syndication arrangement. Loan origination, restructuring and renegotiation fees are recognized in interest income over the expected term of the loan. Commitment fees are accorded the same treatment if it is considered likely that the commitment will be exercised. Otherwise such fees are recognized in other income over the term of the commitment period. Deferred loan fees are recorded in other liabilities.

The accounting treatment for non-accrual loans is as follows:

CONSUMER INSTALMENT AND CREDIT CARD LOANS	SOVEREIGN RISK LOANS	RESIDENTIAL AND NON-RESIDENTIAL MORTGAGES, OTHER PERSONAL LOANS AND LOANS TO BUSINESSES AND GOVERNMENTS
ACCOUNTING FOR INTEREST ON NON-ACCRUAL LOANS		
CLASSIFICATION AS NON-ACCRUAL		
Consumer instalment loans are classified as non-accrual when payments of interest or principal are contractually past due 90 days. Credit card loans are classified as non-accrual and written off when payments of interest or principal are contractually past due 180 days.	Loans are classified as non-accrual when: 1. in the opinion of management there is reasonable doubt as to the ultimate collectibility of principal or interest, or 2. payment of interest or principal is contractually past due 90 days unless in the opinion of management there is no significant doubt as to the ultimate collectibility of interest and principal, or 3. payment of interest or principal is contractually past due 180 days, or 4. in the opinion of management it is considered prudent or desirable to cease accruing interest, irrespective of the status of interest or principal payments.	Loans are classified as non-accrual when: 1. in the opinion of management there is reasonable doubt as to the ultimate collectibility of principal or interest, or 2. payment of interest or principal is contractually past due 90 days unless the loan is both well secured and in the process of collection, or 3. payment of interest or principal is contractually past due 180 days, or 4. in the opinion of management it is considered prudent or desirable to cease accruing interest, irrespective of the status of interest or principal payments.
INTEREST		
When a loan is classified as non-accrual, all accrued and unpaid interest is reversed and charged against interest income in the period in which the loan is classified as non-accrual. Interest is not capitalized if a loan is non-accrual nor is it capitalized to prevent classification of a loan as non-accrual.		
APPLICATION OF SUBSEQUENT PAYMENTS		
Subsequent payments are applied first to interest, then to principal, unless directed otherwise by the borrower.	Subsequent payments are applied first to interest, then to principal, unless directed otherwise by the borrower.	Subsequent payments are recorded in interest income after any prior write-off has been recovered and if management has determined that a specific provision is not required, otherwise they are recorded as a reduction of principal.
ACCOUNTING FOR PRINCIPAL AMOUNTS OF NON-ACCRUAL LOANS		
ESTABLISHING PROVISION FOR CREDIT LOSSES ON LOANS AND WRITING OFF LOANS		
Consumer instalment loans have full specific provisions established and they are written off when payments of interest or principal are contractually past due one year. Credit card loans have full specific provisions established and they are written off at the same time as they are classified as non-accrual.	A specific provision is established to reduce the book value of the loan to its estimated realizable value if there is significant doubt as to the ultimate collectibility of principal on a particular loan. A country risk provision is established based on management's assessment of the political and economic conditions in particular countries, subject to a minimum level of aggregate provisions prescribed by the Superintendent of Financial Institutions Canada.	A specific provision is established to reduce the book value of the loan to its estimated realizable value if there is significant doubt as to the ultimate collectibility of principal on a particular loan. A general provision is established for prudential management reasons in respect of a particular industry or geographical region for which individual specific provisions cannot yet be determined.
	Loans are written off after all reasonable restructuring/collection activities have taken place and the possibility of further recovery is considered to be remote.	

ALLOWANCE FOR CREDIT LOSSES

The Bank's allowance for credit losses, which is maintained at a level considered adequate to absorb credit losses existing in the Bank's portfolio of on and off-balance sheet items, consists of:

- Specific provisions
- General provisions
- Country risk provision

The specific, general and country risk provisions are deducted from the related asset category, except for provisions relating to acceptances and off-balance sheet items, which are recorded in other liabilities.

The allowance is increased by provisions charged to income and is reduced by write-offs, net of recoveries.

TRUST ASSETS UNDER ADMINISTRATION

Trust assets under administration are maintained separately from the Bank's assets and are not included in the Consolidated Balance Sheet.

ACCEPTANCES

The Bank's potential liability under acceptances is reported as a liability in the Consolidated Balance Sheet. The Bank has an offsetting claim against its customers when the instrument matures which is recorded as an asset of the same amount. Acceptances are classified as non-performing when:

1. in the opinion of management there is reasonable doubt as to the ultimate collectibility of the face amount of the acceptance, or
2. in the opinion of management it is considered prudent or desirable.

LAND, BUILDINGS AND EQUIPMENT

Land is stated at cost. Buildings, leasehold improvements and computer and other equipment are stated at cost less an allowance for depreciation and amortization. Depreciation and amortization are calculated using the straight line method over the estimated useful life of the asset. The maximum life limits for the various classes are as follows:

▪ Buildings	to 40 years
▪ Leasehold improvements	to 15 years
▪ Computer and other equipment	to 10 years

INCOME TAXES

Total income taxes include the provision for income taxes in the Consolidated Statement of Income and income taxes in respect of items recorded directly in retained earnings. The Bank follows the tax allocation method of accounting, whereby income taxes are based on transactions recorded in the financial statements regardless of when they are recognized for tax purposes. Deferred income taxes are recorded when there are timing differences in the recognition of transactions for financial statement and income tax purposes. Accumulated deferred income taxes are included in other assets or other liabilities as appropriate.

INTEREST RATE AND FOREIGN EXCHANGE CONTRACTS

The Bank enters into interest rate and foreign exchange forwards, futures, options and swaps for trading purposes or to hedge the Bank's interest rate or foreign currency exposures. Such contracts are marked to market and gains and losses are immediately recorded in income unless the contract is entered into for hedging purposes. When used for hedging purposes, gains and losses are recognized in income on the same basis as the hedged item.

PENSION AND OTHER RETIREMENT BENEFITS

The Bank's principal pension plan in Canada is The Pension Fund Society of the Bank of Montreal. A number of other plans provide similar benefits to employees in Canada, the United States and other parts of the world. The plans provide pensions to retired employees based on years of service and average earnings at retirement. These plans are generally non-contributory, with the Bank responsible for adequately funding the plans.

A valuation is performed each year to determine the actuarial present value of the accrued pension benefits based on management's best estimate of various assumptions such as projected employee compensation levels upon retirement. Pension plan assets are carried at market values.

Pension expense is recorded in the Consolidated Statement of Income as salaries and employee benefits and includes:

- the cost of pension benefits earned by employees for current year's service;
- the net of assumed investment earnings on plan assets and accretion of pension obligations;
- the amortization of the following items on a straight line basis over the expected average remaining service life of employees:
  - experience gains and losses,
  - amounts arising as a result of changes in assumptions, and
  - amounts arising from plan amendments.

The Bank also provides certain health care and life insurance benefits for retired employees. The cost of these benefits is recorded in salaries and employee benefits expense as incurred.

COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform with the 1993 presentation.

SECURITIES

	Term to maturity					1993		1992	
	Within 1 year	1 to 3 years	3 to 5 years	5 to 10 years	Over 10 years	Total	Estimated market value	Total	Estimated market value
Investment Securities									
Issued or guaranteed by:									
Canada	$ 8,217	$ 15	$ 44	$ 12	$ 15	$ 8,303	$ 8,317	$ 9,027	$ 9,025
Provinces	29	1	26	297	2	355	412	362	399
Municipalities	–	–	–	3	–	3	4	4	4
U.S. federal government	812	773	436	36	–	2,057	2,135	2,621	2,704
U.S. states, municipalities and agencies	1,171	397	302	253	42	2,165	2,237	1,716	1,794
Designated countries (a)	–	–	–	–	19	19	54	114	185
Other governments	2	3	1	–	790	796	910	998	1,077
Corporate debt	171	25	63	45	51	355	362	390	388
Corporate equity (b)	–	–	–	–	546	546	572	499	504
Total investment securities	10,402	1,214	872	646	1,465	14,599	15,003	15,731	16,080
Trading Securities (c)	4,743	1,159	573	897	1,188	8,560	8,560	6,715	6,715
Loan Substitute Securities (d)	5	–	159	–	5	169	169	135	129
Total Securities	$15,150	$2,373	$1,604	$1,543	$2,658	$23,328	$23,732	$22,581	$22,924

(a) Includes securities received as a result of debt restructuring in countries designated by the Superintendent of Financial Institutions Canada, net of the country risk provision (note 4) allocated to these securities.

(b) Equity securities which have no stated term are classified as "Over 10 years" term to maturity.

(c) Trading securities are primarily short term Canadian and U.S. government treasury and similar debt instruments.

(d) Loan substitute securities, including term preferred shares and small business bonds, are net of $16 (1992 – $12) allowance for credit losses (note 4).

[illegible]

(net of allowance for credit losses)

The following table summarizes balances for loans, loan substitutes and acceptances by geographic location: (a)	Canada	U.S.A.	Other countries	1993 Total	1992 Total
Residential mortgages	$20,306	$ 950	$ –	$21,256	$19,428
Non-residential mortgages	1,734	140	–	1,874	1,786
Consumer instalment, credit card and other personal loans	10,522	1,745	4	12,271	11,828
Loans to businesses and governments	17,716	19,612	1,299	38,627	35,209
Total loans	50,278	22,447	1,303	74,028	68,251
Loan substitutes	169	–	–	169	135
Acceptances	3,051	218	286	3,555	2,878
Total loans, loan substitutes and acceptances	$53,498	$22,665	$1,589	$77,752	$71,264

Non-Performing Loans, Loan Substitutes and Acceptances (b)

	Canada	U.S.A.	Other countries	Total	Total
Residential mortgages	$ 60	$ –	$ –	$ 60	$ 59
Non-residential mortgages	46	–	–	46	64
Consumer instalment, credit card and other personal loans	26	17	–	43	45
Loans to businesses and governments	1,331	1,587	905	3,823	4,022
Loan substitutes	180	–	–	180	42
Acceptances	97	–	–	97	–
Total non-performing loans, loan substitutes and acceptances	1,740	1,604	905	4,249	4,232
Allowance for credit losses	(841)	(472)	(673)	(1,986)	(2,059)
Total net non-performing loans, loan substitutes and acceptances (c)	$ 899	$ 1,132	$ 232	$ 2,263	$ 2,173
Other past due loans (d)	$ –	$ 22	$ –	$ 22	$ 18
Interest income on total non-performing loans, loan substitutes and acceptances (e)	$ 30	$ 8	$ 134	$ 172	$ 51
Average net non-performing loans, loan substitutes and acceptances	$ 932	$ 1,193	$ 113	$ 2,238	$ 1,742

(a) Balances are reported on an ultimate risk basis.

(b) Non-performing loans, loan substitutes and acceptances comprises non-accrual loans and loan substitutes as well as non-performing acceptances, as defined in Note 1.

(c) Designated countries are countries identified by the Superintendent of Financial Institutions Canada as having difficulty in servicing all or part of their external debt to commercial banks. As at October 31, 1993, the total net non-performing loans to designated countries amounted to $224 (1992 – $180).

(d) Other past due loans are loans where payment of principal or interest is contractually past due 90 days but which have not yet been included in non-performing loans.

(e) Interest income on total non-performing loans is reported net of previously accrued interest which has been reversed in the current reporting year. Gross interest income received was $190 (1992 – $82).

(f) During the year loans in the amount of $139 (1992 – $14) were restructured and classified as performing. For 1993 this amount relates to restructured loans to Argentina.

			1993	1992
The allowance for credit losses is allocated as follows:	Specific and general provisions	Country risk provision	Total	Total
Securities of designated countries	$ –	$ 54	$ 54	$ 244
Loans, loan substitutes and acceptances	1,322	610	1,932	1,815
Off-balance sheet items	13	–	13	11
Total	$1,335	$ 664	$1,999	$2,070
Changes in the allowance for credit losses are as follows:	Specific and general provisions	Country risk provision	Total	Total
Balance at beginning of year	$1,136	$ 934	$2,070	$2,149
Provision for credit losses	676	(1)	675	550
Recoveries	58	1	59	79
Write-offs	(573)	(315)	(888)	(862)
Other, including foreign exchange rate changes	38	45	83	154
Balance at end of year	$1,335	$ 664	$1,999	$2,070

			1993	1992
	Cost	Accumulated depreciation and amortization	Net book value	Net book value
Land	$ 228	$ –	$ 228	$ 223
Buildings	1,030	350	680	631
Computer and other equipment	927	484	443	365
Leasehold improvements	244	137	107	108
Total	$2,429	$ 971	$1,458	$1,327
Depreciation of buildings and computer and other equipment and amortization of leasehold improvements for the year			$ 177	$ 163

Land and buildings include amounts in respect of 547 bank branches, as well as other properties, located in Canada, the United States and other countries.

	1993	1992
Accounts receivable, prepaid expenses and other items	$1,079	$1,334
Accrued interest receivable	440	556
Due from clients, dealers and other financial institutions	373	247
Deferred income taxes recoverable	278	296
Goodwill and other valuation intangibles	249	277
Total	$2,419	$2,710
The components of goodwill and other valuation intangibles (and the remaining amortization period) for each major subsidiary are as follows:		
The Nesbitt Thomson Corporation Limited and subsidiaries (9 years)	$ 129	$ 144
Harris Bankcorp, Inc. and subsidiaries (15 years)	29	32
Other valuation intangibles in respect of Harris Bankcorp, Inc. (from 1 to 10 years)	91	101
Total	$ 249	$ 277
Amortization of goodwill and other valuation intangibles for the year	$ 38	$ 36

7 GEOGRAPHI [illegible]

As at September 30 (a)

	1993	1992
Canada	**$ 73,061**	$ 68,569
United States	**29,887**	31,586
Total	**102,948**	100,155
Europe		
France	**1,107**	624
Germany	**911**	901
Italy	**880**	672
United Kingdom	**1,738**	1,713
Other	**2,092**	2,071
Total	**6,728**	5,981
Latin America and Caribbean		
Mexico	**956**	884
Other	**184**	146
Total	**1,140**	1,030
Asia Pacific		
Japan	**2,411**	2,729
Other	**736**	1,108
Total	**3,147**	3,837
Africa and Middle East	**29**	20
Total assets in countries other than designated countries	**113,992**	111,023
Assets in Designated Countries (b)		
Latin America and Caribbean		
Brazil	**620**	726
Other	**224**	662
Europe	**121**	113
Total assets in designated countries	**965**	1,501
Country risk provision	**(664)**	(934)
Assets in designated countries net of country risk provision	**301**	567
Total assets	**$114,293**	$111,590

(a) All of the countries noted separately above represent an ultimate risk of ½ of 1% or more of the Bank's aggregate outstanding securities, deposits with other banks, customers' liability under acceptances and loans excluding mortgages.

(b) The amounts for assets in designated countries and the related deduction for country risk provision are as at October 31.

INCOME SEGMENTED ON A GEOGRAPHIC LOCATION BASIS

				1993	1992
	Canada	U.S.A.	Other countries	Total	Total
Net interest income	$2,173	$ 771	$ 268	$3,212	$3,010
Provision for credit losses	417	259	(1)	675	550
Other income	1,026	508	47	1,581	1,365
Net interest and other income	2,782	1,020	316	4,118	3,825
Non-interest expense	2,088	806	22	2,916	2,765
Provision for income taxes	333	45	109	487	416
Non-controlling interest in subsidiary	6	–	–	6	4
Net income	$ 355	$ 169	$ 185	$ 709	$ 640

				1993	1992
	Payable on demand	Payable after notice	Payable on a fixed date	Total	Total
Deposits by					
Banks	$ 653	$ 307	$19,847	$20,807	$19,032
Businesses and governments	7,753	5,202	16,172	29,127	29,311
Individuals	1,633	21,404	21,340	44,377	42,404
Total	$10,039	$26,913	$57,359	$94,311	$90,747

	1993	1992
Obligations related to securities sold but not yet purchased	$ 6,442	$ 4,811
Accounts payable, accrued expenses and other items	1,755	1,652
Liabilities of subsidiaries, other than deposits (a)	1,713	1,067
Accrued interest payable	877	895
Deferred fees	91	83
Total	$10,878	$ 8,508

(a) The aggregate sinking fund requirements and maturities as at October 31, 1993 are as follows: 1994 – $1,581; 1999 and thereafter – $132.

10 SUBORDINATED DEBT

	Interest rate %	Maturity date	Redeemable at the option of the Bank beginning	Denominated in U.S. $	1993	1992
Series 8 Debentures	15.25	July, 1994	–	7.5	**$ 10**	$ 18
Series 10 Debentures (a)	3.61	July, 1998	July, 1991	250	**330**	309
Series 11 Debentures (b)	10.60	December, 1998	–	–	**150**	150
Series 13 Debentures (c)	4.46	August, 2089	August, 2000	–	**150**	150
Series 14 Debentures	10.25	May, 2002	–	–	**150**	150
Series 15 Debentures (d)	8.50	June, 2002	June, 1997	–	**200**	200
Series 16 Debentures	10.00	February, 2017	February, 2012	–	**100**	100
Series 17 Debentures	8.85	June, 2003	June, 1998	–	**250**	–
Subordinated Notes	10.00	September, 1998	–	150	**198**	186
Subordinated Notes	10.30	March, 1999	March, 1994	125	**165**	155
Subordinated Notes	9.80	November, 2000	October, 1995	200	**264**	248
Subordinated Notes	6.10	September, 2005	–	300	**396**	–
Total					**$2,363**	$1,666

All subordinated debt represents direct unsecured obligations of the Bank and is subordinate in right of payment to the claims of depositors and certain other creditors.

The aggregate retirement provisions and maturities as at October 31, 1993 are as follows: 1994 – $10; 1998 – $528; 1999 and thereafter – $1,825.

(a) The Series 10 Debentures bear interest at a rate of 0.05% above the London Eurodollar deposit rate, as defined. The stated rate is as at October 31, 1993.

(b) The Series 11 Debentures are exchangeable, at the holder's option, on December 20, 1993 for an equal principal amount of 10.85% Debentures, Series 12, due 2008. Such right of exchange may be exercised by the holder, as set forth in the Series 11 Debentures, from October 15, 1993 to December 19, 1993 inclusive.

(c) The Series 13 Debentures bear interest at a rate equal to the Canadian "90 day Bankers' Acceptance Rate" plus 0.40%, as defined. The stated rate is as at October 31, 1993. They are redeemable from August 8, 2000, at the Bank's option and with the approval of the Superintendent of Financial Institutions Canada, for either (a) cash at par plus unpaid accrued interest or (b) common shares of the Bank. The common share conversion price is 95% of the average trading price (as defined) of the Bank's common shares.

(d) The Series 15 Debentures bear interest at a fixed rate of 8.50% until June 10, 1997. Thereafter, interest will be payable at a rate equal to the Canadian "90 day Bankers' Acceptance Rate" plus 1.00%, as defined.

Authorized

Preferred Shares: An unlimited number of Class A Preferred Shares without par value, issuable in series. The aggregate consideration for all Class A Preferred Shares shall not exceed $2.5 billion.

An unlimited number of Class B Preferred Shares without par value, issuable in series. The aggregate consideration for all Class B Preferred Shares shall not exceed $2.5 billion. These shares may be issued in foreign currencies.

Common Shares: An unlimited number of common shares without par value. The aggregate consideration for all common shares shall not exceed $5.5 billion.

Outstanding	1993		1992	
($ in millions except per share amounts)	**Number of shares**	**Amount**	Number of shares	Amount
Preferred Shares*				
Class A – Series 4 (a)	**8,000,000**	**$ 200**	8,000,000	$ 200
– Series 5 (b)	**288**	**72**	288	72
Class B – Series 1 (c)	**10,000,000**	**250**	10,000,000	250
– Series 2 (d)	**10,000,000**	**330**	10,000,000	310
		852		832
Common Shares (e), (f), (g) & (h)	**249,093,914**	**2,632**	244,819,338	2,539
Total Outstanding Share Capital		**$3,484**		$3,371

*Redemptions of all preferred share issues are subject to the prior approval of the Superintendent of Financial Institutions Canada.

(a) The Class A Preferred Shares Series 4 have a quarterly non-cumulative dividend equal to the greater of $0.5625 per share or 113.2% of the cash dividend paid on common shares of the Bank. These shares are redeemable from September 20, 1999, at the Bank's option, for either (a) cash at $25.00 per share or (b) common shares of the Bank. By terms of the issue, the exchange ratio is set at 95% of the average trading price (as defined) of the Bank's common shares.

(b) The Class A Preferred Shares Series 5 have a quarterly non-cumulative dividend of 7.62% per annum. These shares are redeemable, at the Bank's option, from (a) December 5, 1998 for cash at $250,000.00 per share or (b) from November 25, 1998 for common shares of the Bank. By terms of the issue, the exchange ratio is set at 95% of the average trading price (as defined) of the Bank's common shares.

(c) The Class B Preferred Shares Series 1 have a quarterly non-cumulative dividend of $0.5625 per share. These shares are redeemable from February 25, 2001, at the Bank's option, for either (a) cash at $25.00 per share or (b) common shares of the Bank. By terms of the issue, the exchange ratio is set at the greater of $2.50 and 95% of the average trading price (as defined) of the Bank's common shares.

(d) The Class B Preferred Shares Series 2 have a quarterly non-cumulative dividend of 6.75% per annum. These shares are redeemable from August 25, 2001, at the Bank's option, for either (a) cash at U.S. $25.00 per share or (b) common shares of the Bank. By terms of the issue, the exchange ratio is set at the greater of U.S. $2.50 and the U.S. dollar equivalent of 95% of the average trading price (as defined) of the Bank's common shares.

(e) During the year 4,274,576 (1992 – 6,048,980) common shares were issued under the Shareholder Dividend Reinvestment and Share Purchase Plan and on conversion of shares in a subsidiary for a total value of $93 (1992 – $123).

(f) As at October 31, 1993, 8,805,178 common shares were reserved for possible issuance in respect of the Shareholder Dividend Reinvestment and Share Purchase Plan.

(g) As at October 31, 1993, the Bank has reserved 3,376,211 common shares for possible issuance in respect of the conversion of Class B and C shares of Bank of Montreal Securities Canada Limited.

(h) On March 20, 1993 the Bank distributed one common share for each common share of the Bank held of record at the close of business on March 5, 1993. Share and per share amounts for the prior year have been restated to reflect the effects of the stock distribution.

12 INCOME TAXES

	1993	1992
Total Income Taxes		
Total income taxes are provided for in the applicable financial statements, as follows:		
Consolidated Statement of Income		
Provision for income taxes	**$487**	$416
Consolidated Statement of Changes in Shareholders' Equity		
Unrealized gain (loss) on translation of net investment in foreign operations, net of hedging activities	**(47)**	(67)
Other	**1**	(3)
Total income taxes	**$441**	$346
Current and Deferred Income Taxes		
Total income taxes are allocated as follows:		
Current income taxes	**$423**	$357
Deferred income taxes	**18**	(11)
Total income taxes	**$441**	$346
Effective Tax Rate		
The effective income tax rate in the Consolidated Statement of Income differs from the statutory rate, as described below:		
Combined Canadian Federal and Provincial statutory income tax rate	**42.6%**	42.1%
Increase (decrease) in rate resulting from:		
Average income tax rates applicable to income earned outside of Canada	**(3.7)**	(4.6)
Tax-exempt income from Canadian securities, primarily preferred shares and small business bonds	**(1.3)**	(1.2)
Other	**2.9**	2.9
Effective income tax rate	**40.5%**	39.2%

13 NET INCOME PER COMMON SHARE

Basic net income per common share is calculated using the daily average of common shares outstanding [refer to note 11(h)]. For the year ended October 31, 1993 this average is 247,726,891 (1992 – 242,078,692). Net income applicable to common shares amounted to $641 (1992 – $576), reflecting the deduction of preferred share dividends from net income for the year.

Fully diluted net income per common share is calculated using the daily average of common shares which would have been outstanding during the year of 252,633,713 (1992 – 245,130,702) assuming conversion as at the beginning of the year or at the date of issuance, if later, of all securities which are convertible or redeemable at the option of the holder.

(a) Off-Balance Sheet Financial Instruments

In the normal course of its business, the Bank enters into off-balance sheet financial instruments to meet the financing needs of its customers, for profit purposes and to manage exposures arising from fluctuations in interest and currency rates.

These financial instruments include varying degrees of credit and market (foreign exchange and interest rate) risks depending on the nature and term of each instrument. Such instruments are subject to the same risk management standards and policies as assets reported on the balance sheet.

The table below sets out the details of outstanding off-balance sheet financial instruments. It provides the notional principal amounts as well as the risk-weighted equivalent values, which are based on the rules on Capital Adequacy as prescribed by the Superintendent of Financial Institutions Canada.

CREDIT INSTRUMENTS

These instruments, which have varying degrees of credit risk depending upon the nature and term of the instruments, are designed to meet the funding requirements of customers.

- Guarantees and standby letters of credit represent an irrevocable obligation of the Bank to make payments to a third party in the event that the customer does not meet its obligation. The risks associated with these instruments are virtually the same as assets reported on the balance sheet.
- Documentary and commercial letters of credit represent an agreement with the customer under which the Bank will honour drafts presented by a third party upon completion of specific activities. These instruments are collateralized by the shipment of goods to which the instrument relates.
- Commitments to extend credit represent an undertaking to make credit available in the form of loans or other financings for specific amounts and maturities subject to certain conditions. The risks of these commitments are generally less than the committed value as the Bank does not expect the commitment to be fully drawn and/or collateral may be provided by the customer.
- Note issuance and revolving underwriting facilities represent arrangements whereby the Bank will acquire short-term notes of a customer for a predetermined price in the event that the customer is unable to sell the notes to third parties. The risks associated with these instruments are similar to the risks of commitments to extend credit.

FOREIGN EXCHANGE AND INTEREST RATE CONTRACTS

These instruments are designed to assist the Bank and its customers in managing foreign exchange and interest rate exposures.

- Forward foreign exchange contracts represent agreements to purchase or sell specified amounts of foreign currency at a predetermined exchange rate on a fixed date or within a fixed period.
- Forward rate agreements represent agreements which permit a customer to lock in a rate of interest based upon a notional principal amount for a fixed period of time.
- Interest rate and cross currency swaps are contractual arrangements whereby two parties exchange currency and/or interest payments based upon a notional principal amount for a specified period of time.
- Interest rate and currency options purchased convey the right but not the obligation for the Bank to either buy or sell a specific amount of currency and/or financial instrument at a fixed price at either a fixed future date or at any time during a fixed future period.

The Bank manages its foreign exchange and interest rate contract risk by entering into offsetting positions and through controls over open positions, being the difference between purchase and sale transactions. The potential loss attributed to these instruments is limited to the unrealized market valuation gains on the instruments and may vary based upon changes in market currency and interest rates.

	1993		1992	
	Notional principal amount	**Risk-weighted equivalent**	Notional principal amount	Risk-weighted equivalent
Credit Instruments				
Guarantees and standby letters of credit	**$ 4,723**	**$ 4,041**	$ 4,546	$ 3,838
Documentary and commercial letters of credit	**832**	**151**	736	138
Commitments to extend credit:				
Original maturity of one year and under	**30,220**	**–**	32,762	–
Original maturity of over one year	**15,040**	**7,163**	13,187	6,223
Note issuance and revolving underwriting facilities	**169**	**48**	241	80
Foreign Exchange and Interest Rate Contracts				
Forward foreign exchange contracts	**221,562**	**1,214**	217,097	1,975
Forward rate agreements	**61,073**	**8**	51,546	11
Interest rate and cross currency swaps	**56,634**	**662**	49,200	545
Interest rate and currency options purchased	**7,620**	**48**	6,140	107
Total	**$397,873**	**$13,335**	$375,455	$12,917

(b) Lease Commitments

Annual contractual rental commitments for buildings and equipment for the next five years and thereafter are as follows:

1994	$ 89
1995	84
1996	75
1997	68
1998	60
1999 and thereafter	418

Includes amounts in respect of 667 leased bank branch locations.

(c) Legal Proceedings

Management considers that the aggregate liability which may result from various legal proceedings outstanding against the Bank and its subsidiaries will not be material.

(d) Pledged Assets

In the normal course of business, certain subsidiaries of the Bank pledge their assets as security for liabilities incurred. Securities and other assets are pledged in respect of secured call loans, $1,581; repurchase agreements, $6,452; and other secured liabilities, $2,568.

[illegible]

	1993	1992
The Bank has a number of pension funds, of which The Pension Fund Society of the Bank of Montreal is the principal plan in Canada and the Employees' Retirement Plan of Bank of Montreal/Harris is the pension plan for most of the employees of Harris Bankcorp, Inc. and U.S.-based Bank of Montreal offices.		
The following table provides summaries of their estimated financial positions:		
The Pension Fund Society of the Bank of Montreal		
Pension plan assets at market value	**$1,370**	$1,128
Actuarial present value of accrued pension benefits	**1,185**	1,049
Surplus	**$ 185**	$ 79
The Employees' Retirement Plan of Bank of Montreal/Harris		
Pension plan assets at fair value	**$ 275**	$ 242
Actuarial present value of accrued pension benefits	**253**	225
Surplus	**$ 22**	$ 17
Total pension expense for the year*	**$ 57**	$ 60

*Total pension expense for the year includes the expense for all of the Bank's pension plans, as well as Bank contributions to the Canada and Quebec Pension Plans.

STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL INFORMATION

The presentation and preparation of the annual consolidated financial statements of Bank of Montreal and all other information in the Annual Report is the responsibility of the Bank's management. The information provided therein has been prepared in accordance with the provisions of the Bank Act and related regulations, and corresponds to generally accepted accounting principles, including the accounting requirements of the Superintendent of Financial Institutions Canada. The financial statements necessarily include amounts based on informed judgements and estimates of the expected effects of current events and transactions with appropriate consideration to materiality. The financial information presented elsewhere in the Annual Report is consistent with that in the financial statements.

In meeting its responsibility for the reliability of financial information, management maintains and relies on comprehensive organizational and procedural controls, including internal accounting controls. The Bank's overall controls include written communication of Bank policies and procedures governing corporate conduct and risk management; comprehensive business planning; effective segregation of duties; delegation of authority and personal accountability; careful selection and training of personnel; and sound and conservative accounting policies which are regularly updated. This structure ensures appropriate internal control over transactions, assets and records, in conjunction with a continued program of extensive internal audits covering all aspects of the Bank's operations. These controls are designed to provide reasonable assurance that the financial records are reliable for preparing financial statements and other financial information, assets are safeguarded against unauthorized use or disposition, liabilities are recognized, and the Bank is in compliance with all regulatory requirements.

The Board of Directors is responsible for reviewing and approving the financial information contained in the Annual Report, and overseeing management's responsibilities for the presentation and preparation of financial information, maintenance of appropriate internal controls and assessment of significant and related party transactions. The Board delegates these responsibilities to its Audit and Conduct Review Committees. These committees are composed solely of directors who are not officers or employees of the Bank.

The Shareholders' Auditors and the Bank's Chief Auditor have full and free access to the Board of Directors and its committees to discuss audit, financial reporting and related matters.

Matthew W. Barrett
Chairman and
Chief Executive Officer

F. Anthony Comper
President and
Chief Operating Officer

Robert B. Wells
Executive Vice-President and
Chief Financial Officer

November 23, 1993

SHAREHOLDERS' AUDITORS' REPORT

TO THE SHAREHOLDERS OF BANK OF MONTREAL

We have audited the consolidated balance sheet of Bank of Montreal as at October 31, 1993 and the consolidated statements of income, changes in shareholders' equity and changes in financial position for the year then ended. These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Bank as at October 31, 1993 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles, including the accounting requirements of the Superintendent of Financial Institutions Canada.

The consolidated financial statements for the year ended October 31, 1992 were audited by Deloitte & Touche and Peat Marwick Thorne, who expressed an opinion thereon without reservation in their report dated November 24, 1992.

Coopers & Lybrand
Chartered Accountants

Peat Marwick Thorne
Chartered Accountants

Toronto, November 23, 1993

Corporations in which the Bank owns more than 50% of the issued and outstanding voting shares	Head office	Percent of voting shares owned by the Bank	Book value of common and preferred shares owned by the Bank *(Cdn. $ in millions)*
Canada			
Bank of Montreal Investment Counsel Limited	Toronto	100.0	1
Bank of Montreal Investment Management Limited	Toronto	100.0	13
Bank of Montreal Investor Services Limited	Toronto	100.0	4
Bank of Montreal Mortgage Corporation	Calgary	100.0	1,025
BMRI Realty Investments	Toronto	100.0	
Bank of Montreal Securities Canada Limited	Toronto	100.0	401
The Nesbitt Thomson Corporation Limited and subsidiaries	Montreal	100.0	
The Trust Company of Bank of Montreal	Toronto	100.0	12
United States			
Bankmont Financial Corp.	Wilmington, U.S.A.	100.0	1,865
BMO Financial, Inc.	Wilmington, U.S.A.	100.0	
Harris Bankcorp, Inc. and subsidiaries	Chicago, U.S.A.	100.0	
Harris Futures, Inc.	Wilmington, U.S.A.	100.0	
Harris-Nesbitt Thomson Securities, Inc.	Chicago, U.S.A.	100.0	
HGC Bank	Chicago, U.S.A.	100.0	
Other Countries			
Bank of Montreal Asia Limited	Singapore, Republic of Singapore	100.0	28
Bank of Montreal Capital Markets (Holdings) Limited	London, England	100.0	36
Bank of Montreal Europe Limited	London, England	100.0	10
Concordia Financial Corporation	Bridgetown, Barbados	100.0	283
First Canadian Financial Corporation Limited	Hong Kong, Hong Kong	100.0	
Concordia Insurance Corporation	Bridgetown, Barbados	100.0	23
Concordia Life Assurance Corporation	Bridgetown, Barbados	100.0	30
Empresa Técnica de Organizaçào e Participaçoes S.A.	Rio de Janeiro, Brazil	100.0	13
Banco de Montreal S.A. and subsidiaries	Rio de Janeiro, Brazil	100.0	
Montrealbank Corretora de Seguros Ltda.	Rio de Janeiro, Brazil	100.0	
TOP Empreendimentos Imobiliarios Ltda.	Rio de Janeiro, Brazil	100.0	
TOP Serviços Ltda. and subsidiary	Rio de Janeiro, Brazil	100.0	
First Canadian Assessoria e Serviços Ltda.	Rio de Janeiro, Brazil	100.0	–

The above is a list of all the Bank's directly held corporations, as well as their directly held corporations, and thereby includes all of the Bank's major operating companies.

The book values of the corporations shown represent the total common and preferred equity value of the holdings of the Bank.

QUARTERLY FINANCIAL DATA

($ in millions except per common share amounts)

	1993				1992			
Quarter ended	Oct. 31	July 31	April 30	Jan. 31	Oct. 31	July 31	April 30	Jan. 31
Consolidated Statement of Income								
Interest, dividend and fee income	$ 1,704	$ 1,774	$ 1,782	$ 1,865	$ 1,783	$ 1,868	$ 1,842	$ 1,989
Interest expense	892	938	982	1,101	1,021	1,074	1,132	1,245
Net interest income	812	836	800	764	762	794	710	744
Provision for credit losses	175	175	163	162	150	150	125	125
Net interest income after provision for credit losses	637	661	637	602	612	644	585	619
Other income	421	392	392	376	350	351	339	325
Net interest and other income	1,058	1,053	1,029	978	962	995	924	944
Non-interest expense	722	746	736	712	692	711	691	671
Income before provision for income taxes	336	307	293	266	270	284	233	273
Provision for income taxes	133	125	119	110	109	111	88	108
Income before non-controlling interest	203	182	174	156	161	173	145	165
Non-controlling interest	2	2	1	1	1	–	2	1
Net income	$ 201	$ 180	$ 173	$ 155	$ 160	$ 173	$ 143	$ 164
Average Assets	$114,179	$111,643	$110,140	$110,337	$107,468	$104,813	$102,593	$100,893
Common Share Information								
Average number of common shares outstanding *(in thousands)*	248,931	248,491	247,634	245,849	244,309	242,834	241,320	239,835
Net income per common share								
Basic	$0.74	$0.66	$0.63	$0.56	$0.59	$0.64	$0.53	$0.62
Fully diluted	0.72	0.66	0.62	0.55	0.58	0.63	0.53	0.62
Dividends declared per common share	0.28	0.28	0.28	0.28	0.27	0.26	0.27	0.26
Dividends Declared								
Preferred shares	$ 17	$ 17	$ 17	$ 17	$ 17	$ 16	$ 15	$ 16
Common shares	70	70	69	69	65	64	64	64

CORPORATE DIRECTORY

Bank of Montreal is recognized as a leader in the field of corporate governance reform in Canada. In 1993, the Bank continued to reshape its Board policies and governance processes, both to enhance Board legitimacy and accountability, and to enable the directors to play a fuller and more effective role in the protection and enhancement of shareholder value.

The Nominating Committee of the Board oversees corporate governance reform and recommends policy changes to the full Board. Significant policy changes in 1993 included a decision that only the Chief Executive Officer and the Chief Operating Officer may stand for election to the Board of Directors, thereby limiting the number of inside directors to two in future. Also, the Bank's current Board policy on eligibility of officers and directors has been amended to require the resignation of inside directors from the Board upon their ceasing to be employed as officers of the Bank. Under this policy the former Chief Executive Officer may continue to serve on the Board only if specifically requested by the Board to do so for a defined period of time, not to exceed two years. This policy will become operative upon the retirement of the current Chief Executive Officer of the Bank.

A distinctive feature of Bank of Montreal's management philosophy is to measure the effectiveness of everything we do. In the first stage of the Bank's corporate governance reform, committee responsibilities were significantly increased, while the level of information required by directors to exercise proper oversight and due diligence, and to engage in specific decision-making at both Board and committee stage, was formalized. In 1993, an independent survey of our directors was conducted to determine the effectiveness thus far of these changes and the Bank's other governance reforms, and to ensure that the Board continues to receive pertinent and timely information. The results of this and future surveys, which will be conducted annually, will act as a key determinant in shaping the Bank's governance programs, and in turn maximizing the Board's roles within Bank of Montreal and as a link between the Bank and the communities we serve.

An effective corporate governance program requires significant and ongoing contributions of time and resources, if it is to remain relevant and well-suited to the Bank's current needs. The senior executives of the Bank and the Board of Directors are committed to maintaining the Bank's leadership in this field.

The Board of Directors has seven major committees which undertake detailed studies of specific issues and recommend action to the Board. The Board makes final decisions on the committee recommendations; but the work of the committees in conducting in-depth analysis of situations and considering various courses of action helps the Board work effectively. In addition to our seven principal committees there are three Canadian regional committees and a European committee. Each of these examines the Bank's general operations within its geographic area.

THE EXECUTIVE COMMITTEE is the Board's primary working committee. When the full Board is not in session it acts for the Board in managing, or supervising the management of the Bank's business subject to legal limitations on the delegation of authority. It has overall responsibility for the review of credit transactions in compliance with the Bank Act and corporate policy. The committee meets every month and reports to the Board after each meeting.

Chairman: Matthew W. Barrett.
Members: Ralph M. Barford, David R. Beatty, F. Anthony Comper, Pierre Côté, C. William Daniel, Louis A. Desrochers, John F. Fraser, Betty Kennedy, J. Blair MacAulay, Lorne C. Webster.

THE AUDIT COMMITTEE reviews the Bank's financial statements, and any investments or transactions which could adversely affect the Bank. It also ensures that appropriate internal controls are maintained, and monitors the Bank's compliance with government regulations. The Audit Committee meets regularly with the shareholders' auditors, the Superintendent of Financial Institutions, and the Bank's Chief Financial Officer, Chief Internal Auditor and the Vice-President for Corporate Compliance. The committee meets at least three times a year and reports to the Board after each meeting.

Chairman: Lorne C. Webster.
Members: Peter J.G. Bentley, Pierre Côté, Robert H. McKercher, Jean C. Monty, Jeremy H. Reitman, William W. Stinson.

THE CONDUCT REVIEW COMMITTEE reviews "related party" transactions (as defined by the Bank Act) and identifies those transactions which may affect the stability or solvency of the Bank. It also monitors procedures to deal with conflicts of interest, the disclosure of information to customers, and the resolution of customer complaints. The committee meets at least four times a year and reports to the Board after each meeting.

Chairman: Peter J.G. Bentley.
Members: Pierre Côté, Robert H. McKercher, Jean C. Monty, Jeremy H. Reitman, William W. Stinson, Lorne C. Webster.

THE DONATIONS COMMITTEE supervises the Bank's policies for donations to charities. It also approves donations of more than $50,000. The committee meets four times a year and reports annually to the Board.

Chairman: Betty Kennedy.
*Members: Graham R. Dawson, Jerry E.A. Nickerson, Mary Alice Stuart, Matthew W. Barrett.**

THE HUMAN RESOURCES AND MANAGEMENT COMPENSATION COMMITTEE conducts an annual review of the Bank's human resources. It also approves executive compensation, reviews compensation and benefits policies, assesses the performance of the Chief Executive Officer, monitors management succession planning, and approves executive appointments and reassignments. The committee meets at least four times a year and reports to the Board after each meeting.

Chairman: Ralph M. Barford.
*Members: Pierre Côté, C. William Daniel, Louis A. Desrochers, John F. Fraser, Lorne C. Webster, Matthew W. Barrett.**

THE NOMINATING COMMITTEE identifies and recommends suitable candidates for appointment to the Board, and recommends the assignment of Board members to the various committees. It also conducts an annual assessment of the performance of the Board as a whole, and its individual members. The committee meets at least four times a year and reports to the Board after each meeting.

Chairman: Pierre Côté.
*Members: Ralph M. Barford, Peter J.G. Bentley, J. Blair MacAulay, William W. Stinson, Matthew W. Barrett.**

THE RISK REVIEW COMMITTEE regularly reviews the risks involved in the Bank's operations. It meets regularly with the appropriate officers of the Bank to assess the procedures developed to manage those risks and in particular the management and control of those risks in compliance with the Canada Deposit Insurance Corporation Standards of Sound Business and Financial Practices. The committee meets four times a year and reports to the Board annually.

Chairman: C. William Daniel.
Members: Ralph M. Barford, F. Anthony Comper, Robert E. Kadlec, Ronald N. Mannix, Eric H. Molson.

*Non-voting member

DIRECTORS OF BANK OF MONTREAL

AS AT OCTOBER 31, 1993

MATTHEW W. BARRETT
(49 years of age)

Chairman and
Chief Executive Officer

31 years' experience with the Bank.
Member of the Board since 1987.
Elected Chairman and
Chief Executive Officer in 1990.

F. ANTHONY COMPER
(48 years of age)

President and
Chief Operating Officer

26 years' experience with the Bank.
Elected to the Board in 1990.

Current Chairman,
Canadian Bankers Association.

PETER J.G. BENTLEY, O.C., LL.D.
Vancouver

15 years' experience as member
of the Board.

Chairman and
Chief Executive Officer,
Canfor Corporation,
an integrated forest
products company.

PIERRE CÔTÉ, C.M.
Quebec City

21 years' experience as member
of the Board.

Chairman of the Board,
Celanese Canada Inc.,
a chemical and textile company.

Eric H. Molson
Stanley Kwok
William D. Mulholland
John H. Hale
David R. Beatty
Guylaine Saucier
Jean C. Monty
Jerry E.A. Nickerson

RALPH M. BARFORD
Toronto

7 years' experience as member
of the Board.

President,
Valleydene Corporation Limited,
an investment company,
and Chairman of Camco Inc.
and GSW Inc.

DAVID R. BEATTY, O.B.E.
Toronto

Elected to the Board in 1992.

President,
Weston Foods Ltd.,
a major food processing company.

C. WILLIAM DANIEL, O.C., LL.D.
Toronto

15 years' experience as member
of the Board.

Director,
Bankmont Financial Corp.

Retired President and
Chief Executive Officer,
Shell Canada Limited,
a major integrated petroleum and
petrochemical company.

GRAHAM R. DAWSON
Vancouver

22 years' experience as member of the Board.

President, G.R. Dawson Holdings Limited, a holding company with significant interests in heavy construction, highway maintenance, natural resource and venture capital companies.

LOUIS A. DESROCHERS, Q.C.
Edmonton

20 years' experience as member of the Board.

Senior Partner, McCuaig Desrochers, Barristers and Solicitors.

DONALD S. HARVIE, O.C.
Calgary

27 years' experience as member of the Board.

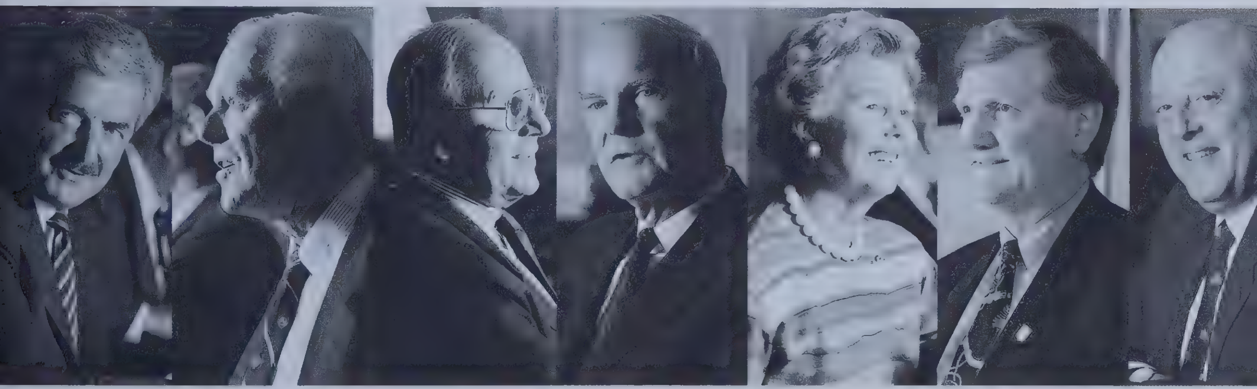
Chairman of Devonian Foundation, a charitable organization.

Former senior executive of various major petroleum companies in Western Canada.

ROBERT E. KADLEC
Vancouver

Elected to the Board in 1991.

President and Chief Executive Officer, BC Gas Inc., a major energy company.



JOHN F. FRASER, O.C., LL.D.
Winnipeg

8 years' experience as member of the Board.

Chairman, Federal Industries Ltd., a diversified management company.

JOHN H. HALE
London, England

8 years' experience as member of the Board.

Retired Managing Director, Pearson plc, a U.K. holding company, and former Executive Vice-President and Director, Alcan Aluminium Limited.

BETTY KENNEDY, O.C., LL.D.
Toronto

18 years' experience as member of the Board.

Over 30 years' experience as Broadcast Journalist and Public Affairs Editor.

GERALDINE A. KENNEY-WALLACE, PH.D., D.Sc., LL.D.
Toronto

Elected to the Board in 1990.

President and Vice-Chancellor, McMaster University, Hamilton.

Former Chairman of the Science Council of Canada.

Matthew W. Barrett
Graham R. Dawson
Pierre Côté
Ralph M. Barford
Betty Kennedy
Ronald N. Mannix
Jeremy H. Reitman

STANLEY KWOK
Vancouver

Elected to the Board in 1993.

Member of the Bank's Vancouver Asian Advisory Panel.

Chairman,
Amara International Investment Corp.

J. BLAIR MACAULAY
Oakville

22 years' experience as member of the Board.

Chairman of the Board,
The Trust Company of
Bank of Montreal.

Partner,
Fraser & Beatty, Toronto,
Barristers and Solicitors.

ERIC H. MOLSON
Montreal

6 years' experience as member of the Board.

Chairman of the Board,
The Molson Companies Limited,
a diversified company.

JEAN C. MONTY
Toronto

Elected to the Board in 1991.

President and
Chief Executive Officer,
Northern Telecom Limited,
a global supplier of
telecommunications products
and systems.

John F. Fraser
William W. Stinson
Lorne C. Webster
J. Blair MacAulay
Peter J.G. Bentley
Geraldine A. Kenney-Wallace
Robert E. Kadlec
C. William Daniel

RONALD N. MANNIX
Calgary

15 years' experience as member of the Board.

Chairman and
Chief Executive Officer,
Loram Corporation,
a resource company.

ROBERT H. MCKERCHER, Q.C.
Saskatoon

5 years' experience as member of the Board.

Senior Partner,
McKercher McKercher Laing
& Whitmore,
Barristers and Solicitors.

Owner and Operator,
Crossmount Farms,
Saskatoon.

WILLIAM D. MULHOLLAND, LL.D.
Georgetown, Ontario

23 years' experience as member of the Board, including 10 years as Chairman of Bank of Montreal.

Now retired, Mr. Mulholland holds several Corporate Directorships and is an active Farmer.

JERRY E.A. NICKERSON
North Sydney, Nova Scotia

12 years' experience as member of the Board.

Chairman,
H.B. Nickerson & Sons Ltd.,
a management and holding
company with interests in metal
fabricating, shipbuilding, ship
repair and real estate.

JEREMY H. REITMAN
Montreal

6 years' experience as member of the Board.

President,
Reitmans (Canada) Limited,
a ladies' apparel retailing company.

GUYLAINE SAUCIER, C.M., F.C.A.
Montreal

Appointed to the Board in 1992.

Corporate Director
and former President,
Le Groupe Gérard Saucier Ltée,
a forest products company.

Former Director of the Bank of Canada and first woman President of the Quebec Chamber of Commerce.

JAMES C. THACKRAY
Toronto

21 years' experience as member of the Board.

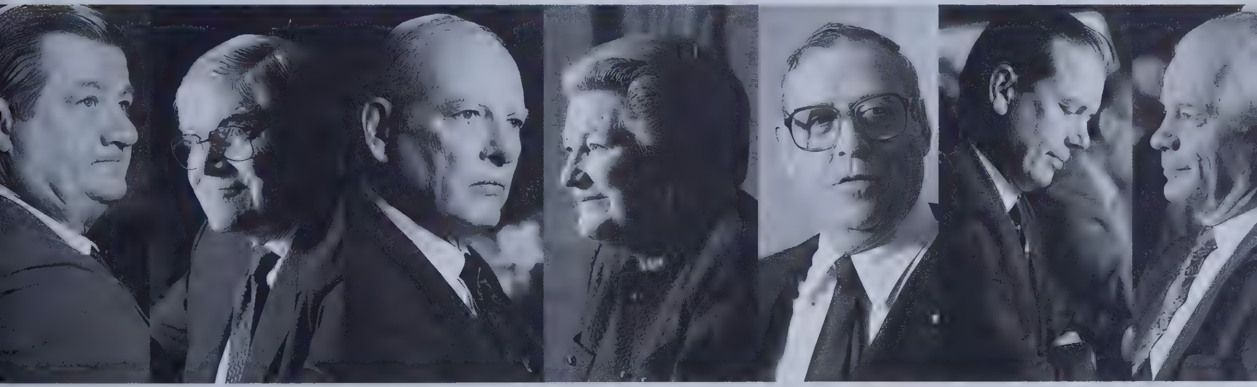
Director and retired Chairman and
Chief Executive Officer,
Bell Canada,
a telecommunications company.

LORNE C. WEBSTER
Montreal

24 years' experience as member of the Board.

Director, Bankmont Financial Corp.

Chairman and
Chief Executive Officer,
Prenor Group Ltd.,
a financial services holding company.



WILLIAM W. STINSON
Montreal

4 years' experience as member of the Board.

Chairman and
Chief Executive Officer,
Canadian Pacific Limited,
a management holding company.

MARY ALICE STUART, C.M., O.ONT., LL.D.
Toronto

7 years' experience as member of the Board.

Chairman and
Chief Executive Officer,
CJRT-FM INC.,
a non-profit radio broadcast station.

B. KENNETH WEST
Chicago, Illinois

9 years' experience as member of the Board.

Chairman of the Board,
Harris Bankcorp, Inc.

Mr. West has been with the Harris organization for 36 years.

B. Kenneth West
James C. Thackray
Robert H. McKercher
Mary Alice Stuart
Donald S. Harvie
F. Anthony Comper
Louis A. Desrochers

The role of the International Advisory Council is to provide the Bank and its Senior Executive advice on political, economic and social trends which impact the Bank's current or future operations. Council meets approximately once every nine months. On request of the Bank's Chairman and Chief Executive Officer, International Advisory Council members provide advice, either collectively or individually, with respect to particular developments outside Canada which may have significance for the Bank. The Council does not participate in the management, operation or administration of the Bank or its subsidiaries and affiliates.

Sylvia Ostry, C.C., F.R.S.C.
(COUNCIL CHAIRMAN) CANADA
Chairman, Centre for International Studies, University of Toronto; Chancellor, University of Waterloo; Chairman, The National Council of the Canadian Institute of International Affairs; Western Co-Chairman, The Blue Ribbon Commission for Hungary's Economic Recovery; and former Ambassador of Canada for Multilateral Trade Negotiations and Personal Representative of the Prime Minister to the Economic Summit.

Matthew W. Barrett
(EX-OFFICIO) CANADA
Chairman of the Board and Chief Executive Officer, Bank of Montreal.

Sir Peter B. Baxendell, C.B.E., F.ENG., FIC.
UNITED KINGDOM
Director, The "Shell" Transport and Trading Company, p.l.c. (Chairman 1979–85) and Director, Inchcape Plc and Sun Life Assurance Company of Canada.

Ambassador Richard R. Burt
UNITED STATES
Partner, McKinsey & Company; Senior advisor to the Center for Strategic and International Studies; former Chief Negotiator on Strategic Arms Reduction Talks and United States Ambassador to Germany.

Sir Michael Butler
UNITED KINGDOM
Executive Director, Hambros Bank Limited; and the British Government's Permanent Representative in the European Community in Brussels (1979–85).

F. Anthony Comper
(EX-OFFICIO) CANADA
President and Chief Operating Officer, Bank of Montreal.

Viscount Étienne Davignon
BELGIUM
Chairman of the Société Générale de Belgique; former Vice-President of the Commission of the European Communities; and former President of the International Energy Agency.

Juan Gallardo
MEXICO
Chairman, Grupo GEUSA; and Chairman of COECE (Coordinación Empresarial para el Acuerdo de Libre Comercio).

Philippe Giscard d'Estaing
FRANCE
Chairman of Thomson International Advisory Board, International Advisor to the Chairman of Thomson SA; and Vice-Chairman of CNPF International (Conseil national du patronat français).

Allan E. Gotlieb, C.C.
CANADA
Chairman, Canada Council, Burson-Marsteller, Canada and Executive Consultants Limited; and former Ambassador of Canada to the United States.

Makoto Kuroda
JAPAN
Senior Managing Director of Mitsubishi Corporation; and former Vice-Minister of International Affairs of MITI (Ministry of International Trade and Industry).

Hun Jo Lee
REPUBLIC OF KOREA
Vice-Chairman & Chief Executive Officer, Goldstar Co., Ltd.; Director of the Korea Institute for Industrial Economics & Technology; Vice-Chairman of Korea Industrial Research Institutes and Chairman of Audio and Video R&D Association of Korea.

Dr. the Honourable David K.P. Li, O.B.E., HON. LL.D. (CANTAB), J.P.
HONG KONG
Director and Chief Executive, The Bank of East Asia, Limited; and Member of the Legislative Council of Hong Kong.

***Peter von Siemens**
FEDERAL REPUBLIC OF GERMANY
Member of the Supervisory Board, Siemens AG.

Dr. h.c. Horst Teltschik
FEDERAL REPUBLIC OF GERMANY
Member of the Managing Board of Directors of BMW AG Munich; former Head of the Department for Foreign and Inter-German Relations, Development Policy, External Security and Deputy Chief of Staff of the Federal Chancellery.

The Honorable James R. Thompson
UNITED STATES
Partner, Chairman and Chairman of the Executive Committee, Winston & Strawn; and Governor of Illinois (1977–91).

*Retired by rotation.
Members acknowledge with appreciation Mr. von Siemens' contribution to Council.

PERSONAL AND COMMERCIAL FINANCIAL SERVICES

Ron Rogers
Senior Executive
Vice-President
Personal & Commercial
Financial Services

HEADQUARTERS

Drew White
Executive Vice-President
Marketing & Planning
First Canadian Place
Toronto, Ontario
M5X 1A1

Tom Alton
President
Bank of Montreal
Mortgage Corporation
Bank of Montreal Tower
55 Bloor Street West
Toronto, Ontario
M4W 3N5

Derek Fry
Senior Vice-President
Electronic Banking
Services
First Canadian Place

Bob McGlashan
Senior Vice-President
Personal and Commercial
Lending Services
First Canadian Place

Denis Nixon
Senior Vice-President
Private Banking
First Canadian Place

Dwight Nowlan
Senior Vice-President
Special Accounts
Management
Unit & Collections
Concourse
First Canadian Place

Colin Smith
Senior Vice-President
Senior Credit Officer
First Canadian Place

Neil Tait
Senior Vice-President
Asian Banking
302 Bay Street
Toronto, Ontario
M5X 1A1

Ron Jamieson
Vice-President
Aboriginal Banking
First Canadian Place

EXECUTIVE OFFICES: CANADA

ATLANTIC PROVINCES

Simon Kouwenhoven
Senior Vice-President
Altlantic Provinces
Division
5151 George Street
Halifax, Nova Scotia
B3J 1M5

Chuck Corbin
Vice-President
Community Banking
(Eastern Newfoundland)
238 Water Street
St. John's, Newfoundland
A1C 6G5

Cyril Kelly
Vice-President
Community Banking
(Halifax/Dartmouth)
Halifax Main Office
5151 George Street
Halifax, Nova Scotia
B3J 1M5

Don Marsh
Vice-President
Community Banking
(Fredericton)
Fredericton Main Office
505 King Street
Fredericton
New Brunswick
E3B 4Y5

QUÉBEC

Gilles Jarry
Senior Vice-President
Québec Division
129, rue Saint-Jacques
Montréal, Québec
H2Y 3S8

Pierre Beauchamp
Vice-President
Community Banking
(Montréal East Island)
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and Deputy Chief
Economist
First Canadian Place

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DIVIDENDS

The following table sets forth the dividends declared during the past two completed financial years.

($ in millions for total dividends declared)	Fiscal 1992		**Fiscal 1993**	
	Annual dividend per share (a)	Total dividends	**Annual dividend per share** (a)	**Total dividends**
Common	$1.06	$257.1	**$1.12**	**$277.9**
Class A Preferred				
Series 3 (b)	2.125	4.7	**–**	**–**
Series 4	2.25	18.0	**2.25**	**18.0**
Series 5 (c)	19,062.50	5.2	**19,062.50**	**5.5**
Class B Preferred				
Series 1	2.25	22.5	**2.25**	**22.5**
Series 2 (d) ($U.S.)	1.6876	11.2	**1.6876**	**21.7**

(a) On full year basis. Dividends are declared and paid quarterly. Common dividend statistics reflect the two-for-one stock distribution in March 1993.
(b) All outstanding Series 3 Preferred Shares were repurchased or redeemed by the Bank during fiscal 1992. Actual dividends declared in fiscal 1992 were for a partial year.
(c) The Class A Series 5 Preferred Shares were issued in December 1991. Actual dividends declared in fiscal 1992 were for a partial year.
(d) The Class B Series 2 Preferred Shares were issued in March 1992. Actual dividends declared in fiscal 1992 were for a partial year.

The Bank Act prohibits a bank from paying or declaring a dividend if it is in contravention of capital adequacy regulations. Currently this limitation does not restrict the payment of dividends on the Bank's common or preferred shares.

COMMON STOCK PRICES* – TORONTO STOCK EXCHANGE

Year Ended October 31	1992	**1993**
High	$24.125	**$27.375**
Low	$18.563	**$21.313**
Close	$23.563	**$26.875**
Volume (TSE)	45,485,280	**97,212,058**

TRANSFER AGENTS AND REGISTRARS

The R-M Trust Company and its principal offices at: Halifax, Montreal, Toronto, Winnipeg, Regina, Calgary and Vancouver serve as transfer agent and registrar for common and preferred shares. In addition, R-M Trust Company and Bank of Montreal Trust Company serve as transfer agents and registrars for common shares in London, England and New York, respectively.

*1992 common stock prices and volumes restated to reflect the effects of the two-for-one stock distribution completed in March 1993.

RESTRAINTS ON BANK SHARES UNDER THE BANK ACT

The Bank Act limits ownership of any class of shares of the Bank by all non-residents to a maximum of 25%. Under this limitation, a resident of the United States is not classified as a non-resident. In addition, no person or group of associated persons may own more than 10% of any class of shares and ownership of the Bank's shares by Canadian or foreign governments is prohibited.

DISTRIBUTION OF COMMON SHAREHOLDERS

At October 31, 1993	
Canada	97.7%
United States	1.1%
Other	1.2%
	100.0%

The above distribution summarizes the registered shareholders by geographic region. Accounts held in nominee name are included in the country in which the account is maintained.

MARKET FOR SECURITIES OF THE BANK

The common shares of the Bank are listed on the Toronto, Montreal, Winnipeg, Alberta and Vancouver stock exchanges and The International Stock Exchange of the United Kingdom and the Republic of Ireland Limited, London, England ("London Stock Exchange").
The preferred shares of the Bank, with the exception of Class A Preferred Shares Series 5, are listed on the Toronto, Montreal, Winnipeg, Alberta and Vancouver stock exchanges. In addition, the following debt securities are listed on the London Stock Exchange: U.S. $250 million Floating Rate Debentures, Series 10, due July 1998; and Cdn. $100 million 10⅜ per cent Notes due October 1996.

SHAREHOLDER DIVIDEND REINVESTMENT AND SHARE PURCHASE PLAN

The Shareholder Dividend Reinvestment and Share Purchase Plan provides a means for holders of record of common and preferred shares resident in Canada to reinvest cash dividends in new common shares of the Bank without the payment of any commissions or service charges. Shareholders may also purchase additional common shares of the Bank by making optional cash payments of up to $40,000 per fiscal year. Full details of the plan are available from Shareholder Services.

ELECTRONIC FUNDS TRANSFER SERVICE

Shareholders may choose to have dividends deposited directly to an account in any financial institution in Canada which provides electronic funds transfer facilities.

FOR COPIES OF THE ANNUAL REPORT, PLEASE WRITE TO THE PUBLIC AFFAIRS DEPARTMENT OF THE BANK, P.O. BOX 6002, POSTAL STATION PLACE D'ARMES, MONTREAL, QUEBEC H2Y 3S8, OR P.O. BOX 1, 1 FIRST CANADIAN PLACE, TORONTO, ONTARIO M5X 1A1.

FOR OTHER SHAREHOLDER INFORMATION, PLEASE WRITE TO THE SECRETARY'S DEPARTMENT, P.O. BOX 6002, POSTAL STATION PLACE D'ARMES, MONTREAL, QUEBEC H2Y 3S8.
(ON PEUT OBTENIR SUR DEMANDE UN EXEMPLAIRE EN FRANÇAIS.)

SUPPLEMENTAL FINANCIAL DATA IS AVAILABLE FROM INVESTOR RELATIONS, P.O. BOX 1, 1 FIRST CANADIAN PLACE, TORONTO, ONTARIO M5X 1A1.

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